

**REPORT TO THE GENERAL MEETING OF  
SHAREHOLDERS OF ZAVAROVALNICA  
TRIGLAV d.d.**

Ljubljana, 11 January 2013

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## I. Incorporation of Triglav INT d.d. and share capital increase

Triglav INT holdinška družba d.d. (hereinafter "Triglav INT") was incorporated in December 2010 as a 100%-owned subsidiary of Zavarovalnica Triglav d.d. (hereinafter "Zavarovalnica Triglav"), in response to a need for involving a strategic partner in the implementation of the 2010-2013 Strategy of Zavarovalnica Triglav and the consolidation of its market presence. In accordance with this strategy the first stage consisted of transferring equity stakes of Zavarovalnica Triglav in its subsidiaries aboard into a single company and the second stage envisaged involvement of a suitable strategic partner.

Following an approval given by the Supervisory Board of Zavarovalnica Triglav on 10 February 2011 (and the respective resolution amendment dated 20 June 2011) and after acquiring all regulatory approvals for individual subsidiaries stipulated by local legislation, the share capital of Triglav INT was increased by in-kind contributions as follows:

1. pursuant to a decision to increase share capital dated 24 August 2011, Zavarovalnica Triglav paid in shares of Triglav INT by an in-kind contribution consisting of the shares of Triglav osiguranje d.d., Sarajevo, BiH and the shares of Triglav osiguranje a.d., Banja Luka, Republika Srpska, respectively accounting for 68.94% and 100% of the share capital of these two companies;
2. pursuant to a decision to increase share capital dated 21 September 2011, Zavarovalnica Triglav paid in shares of Triglav INT by an in-kind contribution consisting of the shares of Triglav osiguranje a.d.o., Belgrade, Republic of Serbia, accounting for 100% - 1 share of the share capital of this company;
3. pursuant to a decision to increase share capital dated 12 October 2011, Zavarovalnica Triglav paid in shares of Triglav INT by an in-kind contribution consisting of the shares of Lovćen osiguranje a.d., Podgorica, Republic of Montenegro, accounting for 94.95% of the share capital of this company;
4. pursuant to a decision to increase share capital dated 3 November 2011, Zavarovalnica Triglav paid in shares of Triglav INT by an in-kind contribution consisting of the shares of Triglav Osiguruvanje, a.d., Skopje, Republic of Macedonia, accounting for 73.38% of the share capital of this company;
5. pursuant to a decision to increase share capital dated 2 December 2011, Zavarovalnica Triglav paid in shares of Triglav INT by an in-kind contribution consisting of the shares of Triglav Pojišt'ovna, Brno, Czech Republic, and the shares of Triglav osiguranje d.d., Zagreb,

Republic of Croatia, respectively accounting for 100% and 99,761% of the share capital of these two companies.

Following all the increases the share capital of Triglav INT currently amounts to EUR 88,598,008.00. The values of individual in-kind contributions were calculated on the basis of the latest available book value of individual assets. Therefore, these transactions had no effect on the accounting statements of Zavarovalnica Triglav, as they resulted in no capital gains or losses.

## **II. Entry of a strategic partner in the shareholder structure of Triglav INT d.d.**

Zavarovalnica Triglav's desire for a strategic partnership with an internationally renowned financial institution was born out of a need for cooperation with a partner who would participate in raising new finance and at the same focus not only on profitability, but also, as a minor shareholder pursue other objectives (e.g. developing local insurance markets, raising local stakeholders' awareness, boosting the image, corporate governance and credit rating of Triglav as a financial group) as well as help develop certain socially important insurance classes (e.g. health, pension and life insurance) in the strategic markets of the Triglav Group outside the Republic of Slovenia. In view of the above and, primarily, taking into account the assessment of synergies such a partnership would bring to the Triglav Group, negotiations regarding a possible partnership continued with IFC - a member of the World Bank (hereinafter: IFC). As a result, on 3 June 2011 Zavarovalnica Triglav signed an Equity Appraisal Letter for Triglav INT. The confidentiality of data thus acquired was regulated by a Confidentiality Agreement, signed on the same date. The Supervisory Board of Zavarovalnica Triglav acknowledged the signing of both documents at its session on 20 June 2011. On the basis of these two signed documents, IFC performed a due diligence examination in seven Triglav INT subsidiaries and conducted further negotiations based on the results with an aim to set out the conditions for acquiring a max. 20% shareholding in Triglav INT.

Zavarovalnica Triglav's professional departments made an in-house appraisal of Triglav INT's assets and its equity. An independent Fairness Opinion, rendered by KPMG d.o.o. poslovno svetovanje, regarding Zavarovalnica Triglav's in-house appraisal confirmed that IFC's entry in the shareholding structure of Triglav INT through a recapitalisation of the latter is fair and reasonable. At its session on 24 November 2011, the Supervisory Board of Zavarovalnica Triglav was informed of

the in-house equity appraisal of Triglav INT and KPMG's independent Fairness Opinion, and gave consent to the Management Board of Zavarovalnica Triglav to examine the possibility of IFC's entry in the shareholder structure of Triglav INT though raising the latter's share capital by the appraised amount under the conditions laid down in the Triglav INT Equity Appraisal Letter of 3 June 2011.

At the end of March 2012, the parties finalised all details of IFC's entry into Triglav INT, the methods of its participation in corporate governance and the conditions for any subsequent withdrawal. Following the approval of Zavarovalnica Triglav's Supervisory Board, Zavarovalnica Triglav, Triglav INT and IFC signed a Subscription Agreement which stipulated that, once the conditions laid down in the agreement are met, IFC will subscribe and pay in ordinary registered shares with an issue value of EUR 24.98 million and thereby acquire a 16.68% stake in the share capital of Triglav INT. Furthermore, the parties signed a Shareholders' Agreement, laying down their rights and obligations regarding the corporate governance and future business of Triglav INT. On the same day, Zavarovalnica Triglav and IFC also entered into a Put Option Agreement which sets out the conditions for IFC's withdrawal from Triglav INT.

After these agreements were signed, Zavarovalnica Triglav and Triglav INT immediately set out to fulfil the conditions for the subscription and payment of TINT shares by IFC as laid down in the Subscription Agreement. Up to the deadline determined in the said agreement, i.e. 31 December 2012, IFC has not subscribed and paid in the shares or provided to Triglav any official information on whether IFC has fulfilled the required conditions. The contracting parties are currently coordinating further activities for the fulfilment of conditions required for the subscription and payment of shares.

### **III. Supervision and Investment Decision Making in the Subsidiaries of Triglav INT d.d.**

Zavarovalnica Triglav manages the subsidiaries of the Triglav INT Group through two types of key divisions: business (core business functions) and management (supporting business functions). Business divisions are responsible for setting minimum standards in any subsidiary, for transferring all good practices from the parent company and for the work of business functions in that subsidiary, which means that subsidiaries give their opinion of all important decisions.

The subsidiaries of the Triglav INT Group are supervised by their own supervisory bodies: either by

the Supervisory Board in the case of the two-tier management system, or by non-executive members of the Board of Directors in the case of the one-tier management system. The authorities of the local management teams in individual subsidiaries are limited by a system of authorisations/prior approvals set up throughout the Triglav INT Group. Certain subsidiaries also regularly report at the Supervisory Board's sessions of Zavarovalnica Triglav. It should be noted that the Supervisory Board of Zavarovalnica Triglav, upon approving the above described share capital increases of Triglav INT by in-kind contributions, on 10 February 2011 proposed that the internal documents of the Triglav Group's subsidiaries, and primarily those of the Triglav INT Group, should regulate investment decision making in subsidiaries in a way which should continue to enable the Supervisory Board of Zavarovalnica Triglav to supervise and make decisions with regard to such investments within the scope as at the day this proposal was made. In response to this proposal the General Meeting of Shareholders of Triglav INT on 21 March 2011 amended the Articles and Memorandum of Association of the Company, requiring all executive directors to submit for approval to the General Meeting of Shareholders the following business decisions:

- the founding of companies with share capital in Slovenia and abroad where the initial investment exceeds EUR 2,500,000;
- the acquisition or sale of shareholdings or participations in domestic or foreign companies above EUR 2,500,000 per company over a period of one year;
- the issuing of debt securities and long-term borrowing from domestic or foreign banks above EUR 2,500,000 over a period of one year; and
- the acquisition of, sale of, or investment in real property where the sales price or investment value is above EUR 2,500,000 over a period of one year.

This amendment to the Articles and Memorandum of Association stipulates that Zavarovalnica Triglav, as the sole shareholder of Triglav INT, approves at the General Meeting of Shareholders any executive director's business decisions referred to in the previous paragraph, subject to the prior approval of the said decision by the Supervisory Board of Zavarovalnica Triglav. On 29 March 2011, the Supervisory Board of Zavarovalnica Triglav took note of the above mentioned amendment to the Articles and Memorandum of Association of Triglav INT.

#### **IV. Operations of Triglav INT d.d. in the first nine months of 2012**

Unaudited Interim Report of Triglav INT d.d. and the Triglav INT Group for the period from 1 January to 30 September 2012 is enclosed in this report.

## **V. Operations of Investicijsko podjetje d.o.o. (Triglav nepremčnine d.o.o.)**

On 22 June 2012 Zavarovalnica Triglav paid a purchase price of EUR 14.8 million for Investicijsko podjetje, Trgovanje z lastnimi nepremičninami d.o.o. (now Triglav nepremčnine, Upravljanje, svetovanje in trgovanje z lastnimi nepremičninami d.o.o. – hereinafter: Investicijsko podjetje) and thus became its sole shareholder owning 100% of share capital. Before this transaction had been finalised, the name of the acquired company changed from Sava IP d.o.o. to Investicijsko podjetje, trgovanje z lastnimi nepremičninami d.o.o., which was in late October 2012 merged with Triglav nepremčnine d.d. to form a new company named Triglav nepremčnine d.o.o.

In accordance with the current Strategy of the Triglav Group, Triglav nepremčnine is in charge of the real property business of the entire Triglav Group. In this way the Triglav Group pursues its strategic objective of concentrating all real property transactions (property management and investments in real property) within a single specialised company, which has the expertise, technical support and human resources needed to effectively manage the real property portfolio of the Triglav Group and produce high returns. At the same time, under the auspices of one of the strongest financial investors in the target region of the Triglav Group, Triglav nepremčnine set itself a long-term goal to become a major player in the institutional investment market of real property in South-East Europe. Two key challenges arose in this context: the need for adequate staffing – which had to be strengthened primarily in the fields of project management and organisation, real property marketing, project analysis and development – and the need for adequately structured real property portfolio of the Triglav Group within the planned exposure limits for this investment class. By acquiring the stake in Investicijsko podjetje the Triglav Group not only got the necessary expert staff and technical structure, but also expanded its real property portfolio by adding certain investments and thus laid foundations for real property business development in the future.

As at 30 September 2012, the last reporting date of the Triglav Group, Investicijsko podjetje still operated as an independent company. It was an investment company, mainly in the business of funding various real property development projects – i.e. real property construction and sales. The company developed office, shopping, housing and tourist properties in Slovenia and preformed three activities. The first activity was construction and selling of properties on the market, which accounted for as much as 85% of total operations. The second activity was construction and letting of properties on the market, representing 11% of total income. The remaining 4% of business was

accounted for by engineering services. Other services, such as real property agency, were performed only occasionally. Investicijsko podjetje had 18 employees, of whom 15 with higher-education or university degrees and outsourced 2 staff on permanent basis.

In the first three quarters of 2012, Investicijsko podjetje earned an income of EUR 6.28 million and reported EUR 486,000 of operating loss and EUR 671,000 of net loss. As at 30 September 2012 financial liabilities of the company equalled EUR 16.6 million and capital amounted to EUR 18.3 million.

The performance of Investicijsko podjetje is conditioned by the current state of the real property market and reflects the (global) financial crisis. The same performance levels were the basis for assessing the value of the company and defining the final purchase price. For the purpose of financial reporting, the newly merged company, Triglav nepremičnine, required appraisals of all the real property acquired through the merger with Investicijsko podjetje as at 31 December 2012. The independent assessor outsourced to make these new appraisals is in no way related to the assessor engaged upon the acquisition of Investicijsko podjetje. The last appraised value of property of Investicijsko podjetje is higher than the value of property recognised upon its acquisition.

Enclosure:

1. *Unaudited Interim Report of Triglav INT d.d. and the Triglav INT Group for the period from 1 January to 30 September 2012*

Stanislav Vrtunski  
Member of the Management Board

Matjaž Rakovec  
President of the Management Board