

# 8

## Financial Result of the Triglav Group and Zavarovalnica Triglav

- In 2016, the Triglav Group generated a net profit of EUR 82.3 million and achieved an 11.4% return on equity.
- At EUR 75.3 million, net profit of the parent company was 29% above the figure reported one year earlier, while the return on equity stood at 13.8%.
- The combined ratio of the Group's insurance companies operating outside Slovenia improved.
- Lower return on financial investments of the Group was primarily a result of lower net interest income and lower net gains on the sale of financial assets.

### 8.1 The Triglav Group

EUR 82.3 million  
Net profit of  
the Triglav Group

The reporting year was marked by the Group's good business results as it ended 2016 with a **net profit** of EUR 82.3 million. Net profit attributable to the shareholders of the controlling company amounted to EUR 81.9 million (index 92), whereas net profit attributable to minority shareholders totalled EUR 396 thousand (EUR 36 thousand in 2015). **The Group's profit before tax** exceeded expectations and reached EUR 95.1 million. **Net return on equity** stood at 11.4%.

**Combined ratio** remains favourable at 92.9% (92.8% in 2015). The combined ratio shows profitability of operations in the non-life and health insurance segments. Any value of this ratio below 100 means that the non-life and health insurance portfolios as the core business (excluding return on investments) are earning a profit.

### The combined ratios in non-life insurance and health insurance in the Triglav Group and individual companies in 2016 compared to 2015

Insurance company	2016	2015	Change
Zavarovalnica Triglav	87.9%	86.2%	1.7 p.p.
Triglav, Zdravstvena zavarovalnica	99.5%	98.9%	0.7 p.p.
Pozavarovalnica Triglav Re	96.7%	93.6%	3.1 p.p.
Triglav Osiguranje, Zagreb	107.4%	119.4%	-12.0 p.p.
Triglav Osiguranje, Sarajevo	99.8%	99.8%	0.0 p.p.
Lovćen Osiguranje, Podgorica	92.3%	111.8%	-19.5 p.p.
Triglav Osiguranje, Belgrade	102.2%	107.3%	-5.1 p.p.
Triglav Osiguranje, Banja Luka	100.7%	102.3%	-1.6 p.p.
Triglav Osiguruvanje, Skopje	99.1%	101.7%	-2.6 p.p.
<b>The Triglav Group</b>	<b>92.9%</b>	<b>92.8%</b>	<b>0.1 p.p.</b>

#### 8.1.1 Premium income, claims incurred and operating expenses

**Net premium earned** (calculated on the basis of gross written insurance and co-insurance premium, reduced by the reinsurers' share and adjusted by the change in gross unearned premium taking into account the reinsurers' share in unearned premium) amounted to EUR 849.6 million and was 1% higher than in 2015. Net premiums earned from health insurance increased by 5%, from non-life by 1%, whilst net premiums earned from life insurance remained approximately at the same level as in 2015 (index 100). Ceded written premium amounted to EUR 79.1 million and was 3% higher over the preceding year. The change in net unearned premium was negative at EUR -7.3 million, whereas in 2015 it was EUR -2.9 million.

**Net claims incurred** (gross claims increased by loss adjustment costs, reduced by the reinsurers' and co-insurers' shares and subrogated receivables, adjusted by the change in gross claims provisions taking into account the reinsurers' and co-insurers' shares in these provisions) increased by 1% and totalled EUR 577.1 million. Net claims incurred in health insurance were up 6% as a result of higher gross claims paid (see Section 7.6.1). Net claims incurred from life insurance increased by 1%, whereas net claims incurred from non-life insurance fell by 1%. The reinsurers' and co-insurers' shares of gross claims decreased by 8% to EUR 21.7 million. The change in net claims provisions was EUR -14.2 million, compared with EUR -8.4 million in 2015. Equalisation scheme expenses for supplemental health insurance decreased by 7% and totalled EUR 7.0 million.

**Operating expenses** (acquisition costs and other operating expenses) amounted to EUR 208.7 million and were 3% higher than in 2015. With a 4% growth, acquisition costs amounted to EUR 141.0 million, while other operating expenses experienced the increase of 3%, totalling to EUR 67.7 million.

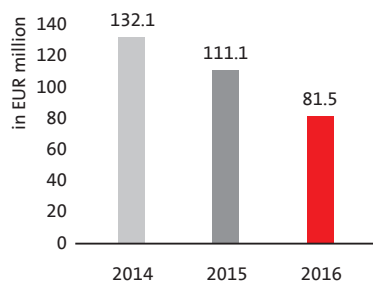
#### 8.1.2 Income and expenses from financial assets

**Income from financial assets** was down by 51%, reaching EUR 146.0 million, whilst income from financial assets in associates was down 43% to EUR 3.1 million nominally. Income from other financial assets was 41% lower or EUR 119.4 million in nominal terms. Net unrealised gains on unit-linked life insurance assets decreased by 75%, totalling EUR 23.5 million.

Over the reporting period, **financial expenses** decreased by 76% to EUR 42.5 million. Expenses from financial assets in associates totalled EUR 3.2 million (index 174), while expenses from other financial assets equalled EUR 37.9 million. The latter recorded a 60% decrease. Net unrealised losses on unit-linked life insurance assets decreased by 98% to EUR 1.5 million. Permanent impairments amounted to EUR 3.2 million, representing a 16% drop over the preceding year.

**Return on financial investments** (excluding unit-linked insurance contract investments) represents the difference between income and expenses from financial assets. They dropped by 27% to EUR 81.5 million, which mainly resulted from lower net gains on the sale of financial assets, whilst a positive effect was attributed to fair value reserves from financial assets.

**The return on financial investments  
of the Triglav Group  
(excluding unit-linked insurance  
contract investments)  
in the 2014–2016 period**



Compared to the previous year, not only net interest income was lower but also the overall effect of changes in the fair value through profit or loss and changes in net gains on the sale of financial assets.

Return on financial investments also impacts the insurance technical provisions and the net profit of the Group. See [→ [Section 8.1.3](#)] (Table: Profit before tax of the Triglav Group) for the impact of return on investments on the profit before tax.

**8.1.3 Change in other insurance  
technical provisions and  
other income and expenses**

**Changes in other technical provisions** summed up to EUR 47.2 million or 22% less than one year earlier, with the change in mathematical provisions amounting to EUR 48.5 million (index 80), while the change in other provisions equalled EUR –1.3 million (EUR –296 thousand in 2015). Mathematical provisions were down predominantly due to higher mathematical provisions in the parent company (see [→ [Section 8.2.3](#)] for more details).

**Change in insurance technical provisions for unit-linked insurance contracts** equalled EUR 777 thousand (EUR –1.9 million in 2015) due to the increase in price of fund units. **Expenses for bonuses and discounts** were 11% higher and totalled EUR 11.3 million.

**Other income from insurance operations** decreased by 27%, amounting to EUR 5.4 million. **Other income** was down 31%, reaching EUR 53.5 million. **Other insurance expenses** were 6% lower (EUR 17.0 million), whereas **other expenses** decreased by 34% (EUR 54.7 million).

### Income statement of the Triglav Group for 2016 – according to IFRS

	2016	2015	Index
<b>Net premium income</b>	<b>849,594,001</b>	<b>839,167,224</b>	<b>101</b>
- gross written premium	936,003,815	919,116,265	102
- ceded written premium	-79,080,949	-77,045,634	103
- change in unearned premium	-7,328,865	-2,903,407	252
<b>Income from financial assets</b>	<b>146,017,485</b>	<b>300,908,574</b>	<b>49</b>
Income from financial assets in associates	3,116,574	5,454,600	57
- profit on equity investments accounted for using the equity method	188,105	1,024,797	18
- realised gains on disposals	2,928,469	4,429,803	66
Income from other financial assets	119,446,634	202,577,180	59
- interest income	68,835,574	71,242,548	97
- dividends	3,356,769	3,218,520	104
- fair value gains	7,813,764	39,290,809	20
- realised gains on disposals	33,979,089	77,477,505	44
- other financial income	5,461,438	11,347,798	48
Net unrealised gains on unit-linked life insurance assets	23,454,277	92,876,794	25
<b>Other income from insurance operations</b>	<b>5,392,172</b>	<b>7,430,958</b>	<b>73</b>
- fees and commission income	252,793	2,494,636	10
- other income from insurance operations	5,139,379	4,936,322	104
<b>Other income</b>	<b>53,537,175</b>	<b>77,260,256</b>	<b>69</b>
<b>Net claims incurred</b>	<b>577,102,418</b>	<b>570,343,294</b>	<b>101</b>
- gross claims settled	606,019,569	594,840,516	102
- reinsurers' share	-21,692,020	-23,535,397	92
- changes in claims provisions	-14,175,200	-8,430,995	168
- equalisation scheme expenses for supplementary health insurance	6,950,069	7,469,170	93
<b>Change in other insurance technical provisions (excluding ULI)</b>	<b>47,211,325</b>	<b>60,340,392</b>	<b>78</b>
<b>Change in insurance technical provisions for unit-linked insurance contracts</b>	<b>776,648</b>	<b>-1,882,145</b>	
<b>Expenses for bonuses and discounts</b>	<b>11,331,630</b>	<b>10,202,959</b>	<b>111</b>
<b>Operating expenses</b>	<b>208,675,708</b>	<b>201,796,133</b>	<b>103</b>
- acquisition costs	141,003,013	136,158,419	104
- other operating costs	67,672,695	65,637,714	103
<b>Expenses from financial assets and liabilities</b>	<b>42,533,879</b>	<b>180,367,256</b>	<b>24</b>
Expenses from financial assets and liabilities in associates	3,174,191	1,160,415	274
- loss on investments accounted for using the equity method	247,812	295,258	84
- realised loss on disposals	2,926,379	865,153	338
- loss on impairment of financial assets	0	4	0
Expenses from other assets and liabilities	37,853,884	95,773,879	40
- interest expense	1,314,505	2,177,446	60
- fair value losses	6,888,471	49,537,301	14
- realised loss on disposals	19,451,022	21,803,897	89
- loss on impairment of financial assets	3,197,025	3,827,445	84
- other expenses from financial assets and liabilities	7,002,861	18,427,790	38
Net unrealised losses on unit-linked insurance assets	1,505,804	83,432,962	2
<b>Other insurance expenses</b>	<b>17,038,345</b>	<b>18,212,146</b>	<b>94</b>
<b>Other expenses</b>	<b>54,732,790</b>	<b>82,909,300</b>	<b>66</b>
<b>Profit/loss before tax</b>	<b>95,138,090</b>	<b>102,477,677</b>	<b>93</b>
Income tax expense	12,806,316	13,616,483	94
<b>Net profit/loss for the accounting period</b>	<b>82,331,774</b>	<b>88,861,194</b>	<b>93</b>
Net profit/loss attributable to the controlling company	81,935,753	88,825,435	92
Net profit/loss attributable to non-controlling interest holders	396,021	35,759	1,107

### Financial result ratios of the Triglav Group

Financial result ratios	2016	2015	2014
Claims ratio	62.0%	62.5%	66.2%
Expense ratio	30.9%	30.3%	30.0%
Combined ratio	92.9%	92.8%	96.3%
Operating expenses of insurance business in gross written premiums	25.3%	25.2%	26.0%
Gross written premium per company employee* (in EUR)	211,478	209,796	199,516

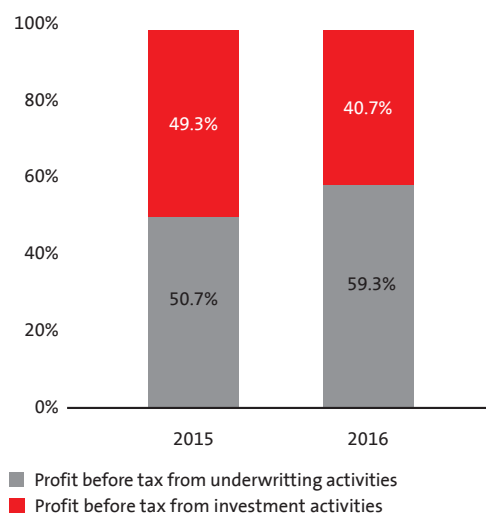
\* Only the employees of the insurance companies and the reinsurance company within the Triglav Group were taken into account.

### Profit before tax of the Triglav Group\*

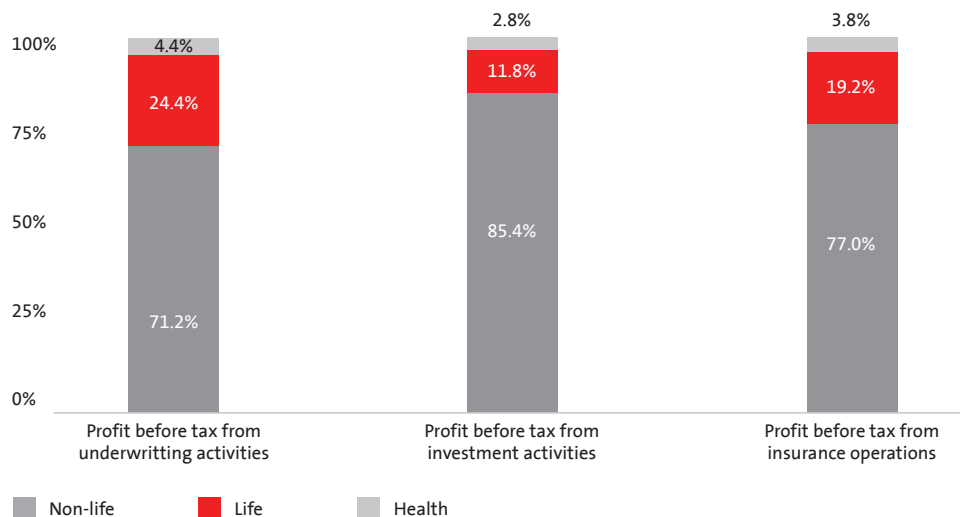
	2016				2015			
	Non-life	Life	Health	Total	Non-life	Life	Health	Total
Profit before tax from underwriting activities	38,843,797	13,286,716	2,427,265	<b>54,557,778</b>	32,997,840	13,165,312	3,575,415	<b>49,738,567</b>
Profit before tax from investment activities	32,046,207	4,426,697	1,039,953	<b>37,512,857</b>	36,062,925	10,379,009	1,899,830	<b>48,341,764</b>
Profit before tax from insurance operations	70,890,004	17,713,413	3,467,218	<b>92,070,635</b>	69,060,765	23,544,321	5,475,245	<b>98,080,331</b>
Profit before tax from non-insurance operations				<b>3,067,454</b>				<b>4,397,347</b>
<b>Total profit before tax</b>				<b>95,138,089</b>				<b>102,477,677</b>

\* The profit from return on financial investments is reduced by the return guaranteed by insurance subsidiaries to life insurance policyholders in the form of a guaranteed return determined in insurance contracts. In addition, return on financial investments is reduced by the increase in mathematical provisions due to lower internally set maximum interest rate used for the valuation of life insurance liabilities.

### Structure of profit before tax of the Triglav Group in 2016 and 2015



### Structure of profit before tax of the Triglav Group by insurance types



13.8%  
Return on equity of  
Zavarovalnica Triglav

## 8.2 Zavarovalnica Triglav

Zavarovalnica Triglav performed well and ended 2016 with a profit. Compared to the preceding year, the Company's **net profit** increased by 29% and reached EUR 75.3 million. The Company's **profit before tax** grew by 22% to EUR 83.4 million. High growth rates in net profit and profit before tax stemmed mainly from high permanent impairments of financial assets in associates in the preceding year. Net return on equity stood at 13.8% and rose by 2.9 percentage points compared to 2015.

**Combined ratio in non-life insurance** was 87.9%, whilst its value was 1.7 percentage points higher.

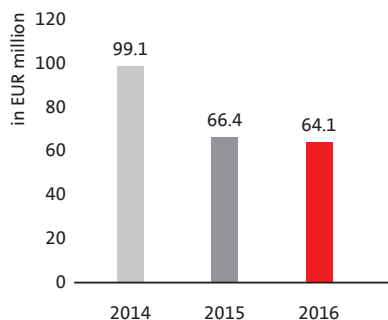
### 8.2.1 Premium income, claims incurred and operating expenses

**Net premium earned** (calculated on the basis of gross written insurance and co-insurance premium, reduced by the reinsurers' share and adjusted by the change in gross unearned premium taking into account the reinsurers' share in unearned premium) amounted to EUR 509.8 million and was 1% lower than in 2015. Net non-life and net life premiums earned decreased by 1% and 3% respectively. Ceded written premium amounted to EUR 78.5 million and was 8% higher over the preceding year. The change in net unearned premium totalled EUR -4.9 million (EUR 3.2 million in 2015).

**Net claims incurred** (gross claims increased by claim handling costs, reduced by the reinsurers' and co-insurers' shares and subrogated receivables, adjusted by the change in gross claims provisions taking into account the reinsurers' and co-insurers' shares in these provisions) amounting to EUR 350.7 million remained at approximately the same level as the year before (index 100). Net claims incurred decreased by 1% in non-life insurance and increased by 2% in life insurance. The reinsurers' and co-insurers' shares in gross claims decreased by 17% and totalled EUR 20.7 million. The change in net claims provisions was EUR -19.8 million (index 123).

**Operating expenses** (acquisition costs and other operating expenses) amounted to EUR 142.2 million and were 3% higher than in 2015. Acquisition costs totalled EUR 102.6 million (index 103), whereas other operating expenses amounted to EUR 39.6 million (index 104).

**The return on financial investments of Zavarovalnica Triglav (excluding unit-linked insurance contract investments) in the 2014–2016 period**



**8.2.2 Income and expenses from financial assets**

**Income from financial assets** decreased by 58% and reached EUR 116.0 million. Income from financial assets in associates reached EUR 9.8 million, having decreased by 69% predominantly due to high dividend payment of two subsidiaries in the preceding year. Income from other financial assets was 45% lower or EUR 83.1 million in nominal terms mainly as a result of lower net gains on the sale of financial assets and from the fair value change. Net unrealised losses on unit-linked life insurance assets reached EUR 23.1 million, which represented a 75% decrease in 2015.

**Financial expenses** equalled EUR 30.2 million, which was 85% less than in 2015. Expenses from financial assets in associates amounted to EUR 552 thousand compared to EUR 47.3 million mainly as a result of permanent impairments in certain subsidiaries. Expenses from other financial assets and liabilities decreased by 59% to EUR 28.3 million, whereas net unrealised gains on unit-linked life insurance assets amounted to EUR 1.4 million, which was 98% less compared to 2015.

**Return on financial investments** (excluding unit-linked life insurance contract investments) represents the difference between income and expenses from financial assets. They amounted to EUR 64.1 million, having decreased by 3% compared to 2015, as a result of lower net gains on the sale of financial assets.

**8.2.3 Change in other insurance technical provisions and other income and expenses**

**Changes in other technical provisions** summed up to EUR 28.8 million or 27% less than one year earlier, with change in mathematical provisions totalling EUR 28.2 million (index 71) and change in other provisions EUR 550 thousand (EUR–737 thousand in 2015). Mathematical provisions were lower as the result of somewhat lower reversionary bonus and the creation of additional provisions (to a lesser extent than in 2015) due to the reduction in the interest rate applied to the valuation of life insurance liabilities.

**Change in insurance technical provisions for unit-linked insurance contracts** equalled EUR –7.5 million (index 185) due to a decrease in price of fund units. **Expenses for bonuses and discounts** reached EUR 9.1 million (index 110).

**Other income from insurance operations** increased by 8% and reached EUR 19.2 million. Fees and commission income amounted to EUR 15.2 million (index 117). **Other income assets** increased by 37% to EUR 12.6 million. **Other insurance expenses** equalled EUR 8.5 million (index 108), whereas **other expenses** reached EUR 12.1 million (index 105).

### Income statement of Zavarovalnica Triglav for 2016 – according to IFRS

	2016	2015	Index
<b>Net premium income</b>	<b>509,765,204</b>	<b>517,040,236</b>	<b>99</b>
- gross written premium	593,129,011	586,260,945	101
- ceded written premium	-78,508,398	-72,460,618	108
- change in unearned premiums	-4,855,409	3,239,909	
<b>Income from financial assets</b>	<b>115,997,114</b>	<b>274,883,169</b>	<b>42</b>
Income from financial assets in associates	9,836,781	31,688,139	31
- interest income	857,579	1,985,141	43
- dividends	62,153	29,318,186	0
- realised gains on disposals	8,911,599	376,413	2,368
- other financial income	5,450	8,399	65
Income from other financial assets	83,084,119	151,322,413	55
- interest income	48,356,136	48,917,584	99
- dividends	2,367,645	2,484,054	95
- fair value gains	1,708,114	26,253,436	7
- realised gains on disposals	29,252,705	68,541,989	43
- other financial income	1,399,519	5,125,350	27
Net unrealised gains on unit-linked life insurance assets	23,076,214	91,872,617	25
<b>Other income from insurance operations</b>	<b>19,160,149</b>	<b>17,683,831</b>	<b>108</b>
- fees and commission income	15,201,866	12,996,626	117
- other income from insurance operations	3,958,283	4,687,205	84
<b>Other income</b>	<b>12,645,615</b>	<b>9,258,952</b>	<b>137</b>
<b>Net claims incurred</b>	<b>350,739,765</b>	<b>349,598,310</b>	<b>100</b>
- gross claims settled	391,236,320	390,567,557	100
- reinsurers' share	-20,679,367	-24,918,956	83
- changes in claims provisions	-19,817,188	-16,050,291	123
<b>Change in other insurance technical provisions (excluding ULI)</b>	<b>28,758,525</b>	<b>39,257,225</b>	<b>73</b>
<b>Change in insurance technical provisions for unit-linked insurance contracts</b>	<b>-7,469,473</b>	<b>-4,032,292</b>	
<b>Expenses for bonuses and discounts</b>	<b>9,108,703</b>	<b>8,265,040</b>	<b>110</b>
<b>Operating expenses</b>	<b>142,229,598</b>	<b>137,861,969</b>	<b>103</b>
- acquisition costs	102,587,533	99,608,988	103
- other operating costs	39,642,065	38,252,981	104
<b>Expenses from financial assets and liabilities</b>	<b>30,163,394</b>	<b>200,067,115</b>	<b>15</b>
Expenses from financial assets and liabilities in associates	551,754	47,292,586	1
- realised loss on disposals	544,414	882,000	62
- loss on impairment of financial assets	0	46,351,490	0
- other expenses from financial assets and liabilities	7,340	59,096	12
Expenses from other financial assets and liabilities	28,252,856	69,341,567	41
- interest expense	1,383,064	1,900,242	73
- fair value losses	1,885,016	34,068,361	6
- realised loss on disposals	18,158,535	20,502,755	89
- loss on impairment of financial assets	3,097,058	231,310	1,339
- other expenses from financial assets and liabilities	3,729,183	12,638,899	30
Net unrealised losses on unit-linked life insurance assets	1,358,784	83,432,962	2
<b>Other insurance expenses</b>	<b>8,476,079</b>	<b>7,835,999</b>	<b>108</b>
<b>Other expenses</b>	<b>12,143,689</b>	<b>11,579,325</b>	<b>105</b>
<b>Profit/loss before tax</b>	<b>83,417,802</b>	<b>68,433,497</b>	<b>122</b>
Income tax expense	8,084,200	9,927,679	81
<b>Net profit/loss for the accounting period</b>	<b>75,333,602</b>	<b>58,505,818</b>	<b>129</b>

### Financial results ratios of Zavarovalnica Triglav

Financial results ratios	2016	2015	2014
Return on equity	13.8%	10.9%	8.7%
Claims ratio	55.7%	55.2%	53.2%
Expense ratio	32.3%	31.0%	28.3%
Combined ratio	87.9%	86.2%	81.4%
Ratio between gross operating costs and gross written premium	27.7%	27.5%	27.5%