

8. Financial result of the Triglav Group and Zavarovalnica Triglav

- The Triglav Group generated profit before tax of EUR 100.9 million and achieved a 10.9% return on equity.
- Compared to the previous year, the Group's combined ratio improved and stood at 91.5%, primarily due to the improved expense ratio.
- Despite lower interest income, the rates of return on the Group's financial investments were higher as a result of higher net income from fair value changes and higher net gains on the sale of financial assets.

8.1 The Triglav Group

The Triglav Group performed well in 2019, ending the year with **profit above the budgeted level**. The favourable financial result was driven by growth in business volume, underwriting discipline, favourable claims experience and higher rates of return on investment. Consolidated **profit before tax** amounted to EUR 100.9 million and **net profit** to EUR 83.9 million, both having increasing by 4%. **Net return on equity** was 10.9%, up by 0.1 percentage point.

The **combined ratio** was within the favourable long-term target range and stood at 91.5%, an increase of 0.3 percentage point relative to the previous year. It shows the 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 of the core business (excluding return on investment) are earning a profit. The combined ratio improved primarily as a result of the improved expense ratio or the fact that growth in net premium earned was higher than the growth of operating expenses. The claims ratio remained at favourable 63.2% despite an increase.

The combined ratios in the Triglav Group and individual insurance subsidiaries in 2019 compared to 2018

Insurance company	2019	2018	Change
Zavarovalnica Triglav	85.6%	86.1%	-0.5 p.p.
Triglav, Zdravstvena zavarovalnica	98.0%	99.3%	-1.3 p.p.
Pozavarovalnica Triglav Re	97.2%	96.2%	1.0 p.p.
Triglav Osiguranje, Zagreb	101.9%	103.1%	-1.2 p.p.
Triglav Osiguranje, Belgrade	95.4%	97.9%	-2.5 p.p.
Lovćen Osiguranje, Podgorica	92.8%	91.0%	1.8 p.p.
Triglav Osiguranje, Sarajevo	97.8%	99.8%	-2.0 p.p.
Triglav Osiguranje, Banja Luka	123.8%	107.7%	16.2 p.p.
Triglav Osiguruvanje, Skopje	102.5%	100.8%	1.7 p.p.
The Triglav Group	91.5%	91.8%	-0.3 p.p.

8.1.1 Premium earned, claims incurred and operating expenses

Net premium earned increased by 8% to EUR 1,027.6 million. Net premium income from health insurance grew by 23%, net premium income from non-life insurance went up by 6% and net premium income from life and pension insurance rose by 4%. Net premium earned is composed of gross written premium in the amount of EUR 1,184.2 million (index 111) less written premium ceded to reinsurance and co-insurance in the amount of EUR 136.5 million (index 128) and adjusted by the change in net unearned premium of EUR -20.1 million (index 201).

+4%

Consolidated
profit before tax
of the
Triglav Group

Net claims incurred rose by 9% to EUR 684.1 million. Net claims incurred in health insurance recorded the highest growth (22%) due to higher gross claims paid (see [→ Section 7.6.1] for more details). Net claims incurred in non-life insurance increased by 6% and in life and pension insurance by 7%. Net claims incurred are composed of gross claims paid in the amount of EUR 716.7 million (index 105) less reinsurers' and co-insurers' shares in gross claims paid in the amount of EUR 35.3 million (index 88), adjusted by the change in net claims provisions of EUR -4.9 million (index 25) and increased by equalisation scheme expenses for supplemental health insurance in the amount of EUR 7.6 million (index 122). The amount of net claims paid was positively affected by the favourable development of the claims provision in past years.

Operating expenses (acquisition costs and other operating expenses) totalled EUR 244.5 million, up by 5% compared to 2018. Increased operating expenses were mostly a result of higher acquisition costs, direct and indirect, due to high premium growth and strategic development activities. The growth of total operating expenses (all functional cost groups) was behind gross written premium growth, which resulted in a 1.3 percentage point lower ratio of expenses to written premium. See [→ Section 7.7 Gross operating expenses] for more details on operating expenses.

8.1.2 Income and expenses from financial assets

Income from investments, including income from investments in associates, increased by 109% and reached EUR 188.1 million. Income from investments in associates amounted to EUR 1.1 million (index 105), while income from investments rose by 110% to EUR 187.0 million. The main reason for income growth was the increase in the prices of securities as a result of further reduction in interest rates and growth in the unit prices of unit-linked insurance investments. Interest income was down by 4% to EUR 53.1 million, whereas gains on disposal of investments increased by 58% to EUR 37.6 million, which resulted primarily from bond swaps due to investment policy changes. Other income from investments rose to EUR 96.3 million (compared to EUR 9.5 million in 2018). Other income from investments includes changes in fair value of EUR 19.2 million (compared to EUR 1.0 million in 2018), other financial income in the amount of EUR 5.2 million (index 131), dividends of EUR 3.9 million (index 95) and net unrealised gains on unit-linked life insurance assets, which totalled EUR 68.0 million (compared to EUR 451 thousand in 2018), with a proportionate increase in the provisions related thereto.

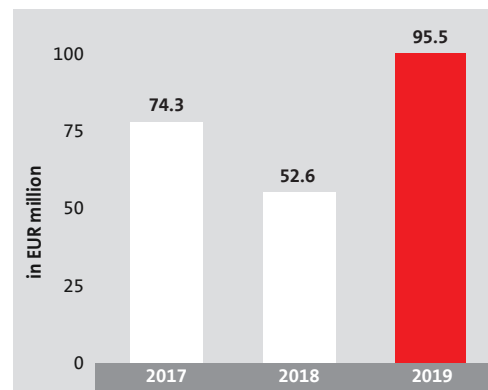
Expenses from investments, including expenses from investments in associates, decreased by 63% and reached EUR 24.7 million. Expenses from investments in associates amounted to EUR 733 thousand and expenses from investments totalled EUR 24.0 million (index 36). Losses on disposals amounted to EUR 9.8 million (index 74), impairments of equity investments equalled EUR 849 thousand (index 57) and other expenses from investments totalled EUR 13.3 million (index 25). Other expenses from investments include net unrealised losses on unit-linked life

insurance assets in the amount of EUR 194 thousand (compared to EUR 30.4 million in 2018), changes in fair value of EUR 6.7 million (index 44) and other financial expenses in the amount of EUR 6.4 million (index 97).

Return on investment of the Triglav Group (excluding unit-linked life insurance contract investments) represents the difference between income and expenses from financial assets. They amounted to EUR 95.5 million, having increased by 82%. The higher return was a result of the movement of both income and expenses from investments. Despite lower interest income, income was higher mainly as a result of higher net gains on the sale of financial assets and higher net income from changes in fair value. Interest income continues to decline due to low interest rates.

The rates of return on investment also impact the insurance technical provisions and net profit of the Group. See [→ the next section 8.1.3] (the table *Structure of profit before tax of the Triglav Group*) for the impact of rates of return on investment on profit before tax.

Rates of return on investment of the Triglav Group (excluding unit-linked insurance investments) in 2017–2019



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

Change in other insurance technical provisions increased to EUR 59.3 million (compared to EUR 39.9 million in 2018), predominantly due to the growth of mathematical provisions. **Change in insurance technical provisions for unit-linked insurance contracts** totalled EUR 69.2 million (compared to EUR -46.9 million in 2018) due to the increase in the price of fund units. **Expenses for bonuses and discounts** rose by 1% to EUR 11.6 million.

Other insurance income, excluding fees and commissions, went up by 8% to EUR 15.1 million. **Other insurance expenses**, excluding fees and commissions, increased by 16% to EUR 19.9 million, mainly due to higher value adjustments of receivables in the parent company. **Net fee and commission income** amounted to EUR -1.6 million (compared to EUR -850 thousand in 2018).

Other income was up by 9%, totalling EUR 39.5 million, predominantly due to the merger of ALTA Skladi with Triglav Skladi. The 22% increase in **other expenses** (EUR 54.5 million) was mainly a result of higher other expenses in Triglav Skladi due to the merger of ALTA Skladi and higher interest expenses from the bonds issued by the parent company.

Income statement of the Triglav Group for 2019 – according to IFRS

	2019	2018	Index
Net premium income	1,027,628,825	951,762,862	108
- gross written premium	1,184,174,107	1,068,394,407	111
- ceded written premium	-136,453,097	-106,624,908	128
- change in unearned premium reserve	-20,092,185	-10,006,637	201
Income from investments in subsidiaries and associates	1,076,327	1,021,159	105
- profit on equity investments accounted for using the equity method	515,913	1,021,159	51
- other income from investments in subsidiaries and associates	560,414	0	0
Income from investments	186,989,205	88,889,077	210
- interest income calculated using the effective interest method	53,137,742	55,573,242	96
- gains on disposals	37,568,819	23,777,837	158
- other income from investments	96,282,644	9,537,998	1,009
Other income from insurance operations	37,183,512	29,837,981	125
- fees and commission income	22,069,255	15,806,181	140
- other income from insurance operations	15,114,257	14,031,800	108
Other income	39,521,122	36,149,533	109
Net claims incurred	684,147,828	626,560,398	109
- gross claims settled	716,742,136	679,600,218	105
- reinsurers` share	-35,254,541	-39,988,966	88
- changes in claims provisions	-4,906,936	-19,248,552	25
- equalisation scheme expenses for supplementary health insurance	7,567,169	6,197,698	122
Change in other insurance technical provisions (excluding ULI)	59,308,590	39,860,373	149
Change in insurance technical provisions for unit-linked insurance contracts	69,205,056	-46,889,547	
Expenses for bonuses and discounts	11,561,258	11,417,685	101
Operating expenses	244,452,851	233,637,425	105
- acquisition costs	162,566,584	159,245,093	102
- other operating costs	81,886,267	74,392,332	110
Expenses from investments in subsidiaries and associates	733,344	137,092	535
- loss on investments accounted for using the equity method	170,640	137,092	124
- other expenses from financial assets and liabilities	562,704	0	0
Expenses from investments	23,953,573	67,118,486	36
- loss on impairment of investments	848,962	1,497,483	57
- loss on disposal on investments	9,767,166	13,128,928	74
- other expenses from investments	13,337,444	52,492,075	25
Other insurance expenses	43,565,310	33,744,135	129
Other expenses	54,533,956	44,618,763	122
- expenses from financing	3,098,502	1,384,361	224
- other expenses	51,435,454	43,234,402	119
Profit before tax	100,937,227	97,455,802	104
Income tax expense	17,072,798	16,629,557	103
Net profit for the period	83,864,429	80,826,245	104
Net profit/loss attributable to the controlling company	83,690,644	80,662,754	104
net profit/loss attributable to the non-controlling interest holders	173,785	163,491	106

Financial result ratios of the Triglav Group

Financial result ratios	2019	2018	2017
Loss ratio	63.2%	62.5%	64.0%
Expense ratio	28.3%	29.3%	29.0%
Combined ratio	91.5%	91.8%	93.1%
Operating expenses of insurance business in gross written premiums	23.2%	24.5%	24.8%
Gross written premium per company employee* (in EUR)	260,516	237,579	224,171

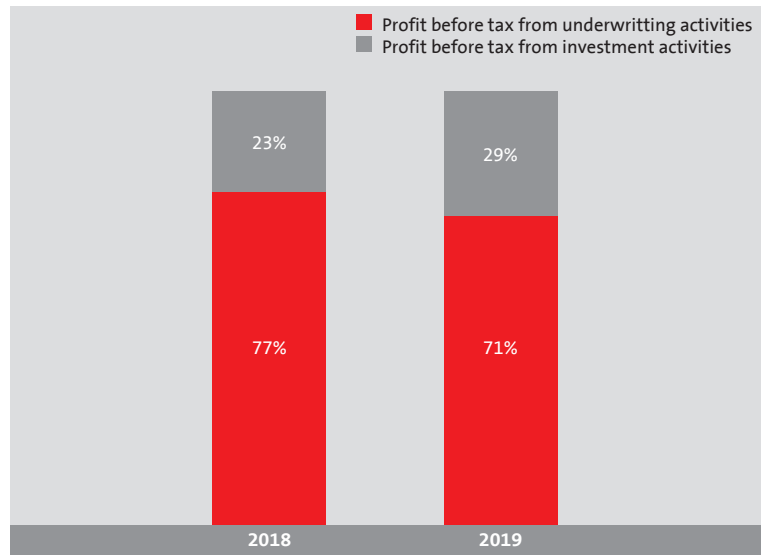
* Only the employees of the insurance companies and the reinsurance company of the Triglav Group were taken into account.

Structure of profit before tax of the Triglav Group*

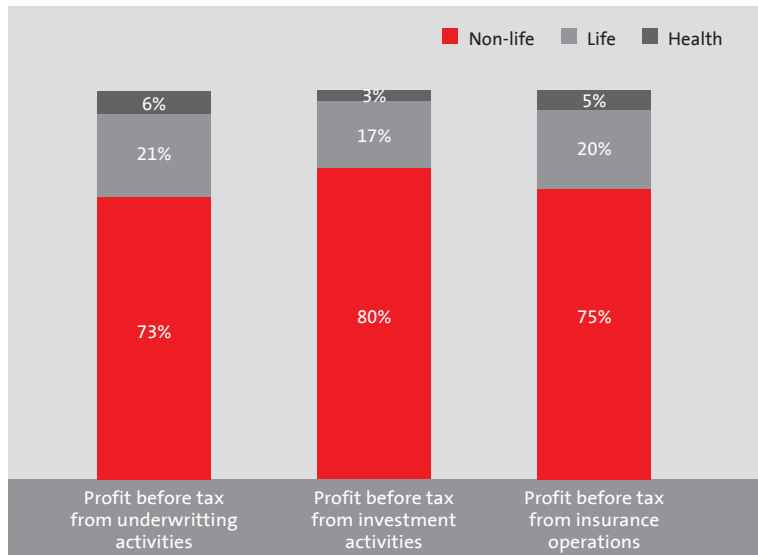
	2019				2018			
	Non-life	Life	Health	Total	Non-life	Life	Health	Total
Profit before tax from underwriting activities	52,189,641	15,349,378	4,216,154	71,755,173	51,167,138	17,820,019	2,638,850	71,626,007
Profit before tax from investment activities	23,337,145	4,877,476	819,286	29,033,907	24,534,323	-3,699,325	723,642	21,558,640
Profit before tax from insurance operations	75,526,786	20,226,854	5,035,440	100,789,080	75,701,461	14,120,694	3,362,492	93,184,647
Profit before tax from non-insurance operations				148,147				4,271,156
Total profit before tax				100,937,227				97,455,803

* Profit from return on investment is reduced by the return guaranteed by the Group's insurance subsidiaries to life insurance policyholders in the form of a guaranteed return determined in insurance contracts. In addition, return on investment 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 2018 and 2019



Structure of profit before tax of the Triglav Group by segment in 2018 and 2019



The improved non-life and health insurance result resulted from higher profit before tax from underwriting activities, mainly due to higher growth in net premium earned, lower growth in operating expenses and more favourable net claims experience. Profit from financial investments in the non-life insurance segment was somewhat lower than the year before due to lower interest income and lower realised capital gains.

Profit before tax of the Group's life insurance segment increased by EUR 6.1 million to EUR 20.2 million in 2019. Particularly profit from financial investments improved due to higher rates of return on financial investments of Zavarovalnica Triglav. Despite lower interest income, they increased mainly due to higher realised capital gains (by EUR 4.9 million). The higher profit from financial investments was also influenced by the creation of additional provisions, which were down by EUR 3.7 million on the previous year. The result of Zavarovalnica Triglav's life insurance segment remained at the same level as in 2018, whereas that of the subsidiaries was lower by EUR 1.1 million. The lower result in 2019 was also affected by the reversal of additional provisions for guaranteed factors in 2018.

8.2 Zavarovalnica Triglav

Zavarovalnica Triglav also performed well, ending the 2019 business year with a higher profit. Compared to the preceding year, **profit before tax** grew by 8% and reached EUR 84.6 million. **Net profit** also increased by 8% to EUR 70.6 million. **Net return on equity** stood at 12.4%, up by 0.8 percentage point.

Combined ratio in non-life insurance was 85.6%, down by 0.5 percentage point compared to the previous year. Higher growth in net premium earned than growth in net claims incurred resulted in a lower claims ratio (by 0.3 percentage point) and a lower expense ratio (by 0.2 percentage point).

8.2.1 Premium earned, claims incurred and operating expenses

Net premium earned amounted to EUR 573.6 million, an increase of 4% compared to the preceding year. Net premium income from non-life insurance and net premium income from life insurance increased by 4% and 3% respectively. Net premium earned is composed of gross written insurance and co-insurance premiums in the amount of EUR 702.1 million (index 106) less written premium ceded to reinsurance and co-insurance in the amount of EUR 119.5 million (index 118) and adjusted by the change in net unearned premium of EUR -9.0 million (index 130).

Net claims incurred grew by 5% to EUR 376.8 million. Net claims incurred increased by 3% in non-life insurance and by 7% in life insurance. Net claims incurred are composed of gross claims paid in the amount of EUR 425.2 million (index 101) less reinsurers' and co-insurers' shares in claims paid in the amount of EUR 31.5 million (index 83) and adjusted by the change in net claims provi-

sions of EUR -16.9 million (index 73).

Operating expenses (acquisition costs and other operating expenses) increased by 3% to EUR 157.9 million. Acquisition costs and other operating expenses were up by 1% and 10% respectively. The growth of total operating expenses (all functional cost groups) was behind gross written premium growth, which resulted in a 0.7 percentage point lower ratio of expenses to written premium.

8.2.2 Income and expenses from financial assets

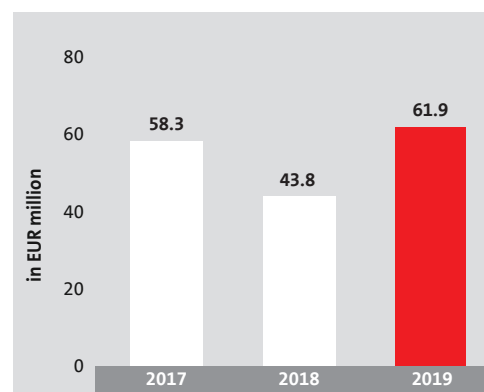
Income from investments, including income from investments in associates, increased by 116% and reached EUR 145.2 million. Income from investments in associates totalled EUR 3.6 million, a decrease of 31%, mainly as a result of lower dividends paid. Income from investments climbed by 129% to EUR 141.5 million. Interest income was down by 5% to EUR 35.1 million, gains on disposal of investments increased by 73% to EUR 32.1 million as a result of bond swaps due to investment policy changes, while other income from investments totalled EUR 74.3 million (compared to EUR 6.3 million in 2018). Other income from investments includes net unrealised gains on unit-linked life insurance assets in the amount of EUR 64.9 million (compared to EUR 440 thousand in 2018), changes in fair value of EUR 3.3 million (index 492), other financial income in the amount of EUR 3.3 million (index 151) and dividends of EUR 2.9 million (index 94).

Expenses from investments, including expenses from investments in associates, decreased by 64% to EUR 18.6 million. Expenses from investments in associates amounted to only EUR 195 thousand (compared to EUR 5 thousand in 2018), while expenses from investments totalled EUR 18.4 million (index 36). Losses on disposals equalled EUR

9.7 million (index 77), impairments of equity investments amounted to EUR 344 thousand (index 28) and other expenses from investments totalled EUR 8.4 million (index 23). Other expenses from investments include net unrealised losses on unit-linked life insurance assets of EUR 193 thousand (compared to EUR 28.1 million in 2018), changes in fair value equalling EUR 4.4 million (index 82) and other financial expenses in the amount of EUR 3.7 million (index 105).

Return on investment (excluding unit-linked life insurance contract investments) rose by 41% to EUR 61.9 million. Reasons for the higher return are connected to both income and expenses from investments. Despite lower interest income, income was higher due to increased net gains on the sale of financial assets and higher net income from changes in fair value. Continuously lower interest income is still caused by low interest rates.

Rates of return on investment of Zavarovalnica Triglav (excluding unit-linked life insurance contract investments) in 2017–2019



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

Change in other insurance technical provisions was lower than the year before and amounted to EUR 22.3 million (compared to EUR 29.5 million in 2018), predominantly due to lower growth in mathematical provisions.

Change in insurance technical provisions for unit-linked insurance contracts amounted to EUR 57.1 million (compared to EUR -50.9 million in 2018) due to the increase in the price of fund units. **Expenses for bonuses and discounts** decreased by 8% to EUR 9.7 million due to change in provisions for bonuses.

Other insurance income, excluding fees and commissions, declined by 5% to EUR 9.9 million. **Other insurance expenses**, excluding fees and commissions, increased by 33% and totalled EUR 11.0 million, primarily due to higher value adjustments of receivables. **Net fee and commission income** grew by 18% to EUR 15.9 million.

Other income fell by 9% to EUR 11.4 million, mainly as a result of lower income from the sale of real property. The 14% increase in **other expenses**, which amounted to EUR 17.8 million, predominantly resulted from higher interest expenses from the issued bonds.

Income statement of Zavarovalnica Triglav for 2019 – according to IFRS

	2019	2018	Index
Net premium income	573,555,357	551,940,868	104
- gross written premium	702,131,969	660,210,432	106
- ceded written premium	-119,532,753	-101,297,110	118
- change in unearned premium reserve	-9,043,859	-6,972,454	130
Income from investments in subsidiaries and associates	3,642,440	5,305,545	69
- profit on equity investments accounted for using the equity method	0	0	0
- other income from investments in subsidiaries and associates	3,642,440	5,305,545	69
Income from investments	141,512,227	61,755,135	229
- interest income calculated using the effective interest method	35,136,849	36,890,019	95
- gains on disposals	32,059,434	18,521,649	173
- other income from investments	74,315,944	6,343,467	1,172
Other income from insurance operations	29,755,003	27,448,384	108
- fees and commission income	19,848,006	17,004,132	117
- other income from insurance operations	9,906,997	10,444,252	95
Other income	11,355,435	12,491,979	91
Net claims incurred	376,760,877	359,941,674	105
- gross claims settled	425,204,380	421,002,582	101
- reinsurers' share	-31,495,447	-37,767,613	83
- changes in claims provisions	-16,948,056	-23,293,295	73
- equalisation scheme expenses for supplementary health insurance	0	0	0
Change in other insurance technical provisions (excluding ULI)	22,338,141	29,499,390	76
Change in insurance technical provisions for unit-linked insurance contracts	57,140,018	-50,884,979	
Expenses for bonuses and discounts	9,721,522	10,571,287	92
Operating expenses	157,906,165	153,008,918	103
- acquisition costs	110,868,380	110,230,112	101
- other operating costs	47,037,785	42,778,806	110
Expenses from investments in subsidiaries and associates	195,478	4,759	4,108
- loss on investments accounted for using the equity method	0	0	0
- other expenses from financial assets and liabilities	195,478	4,759	4,108
Expenses from investments	18,381,935	50,929,727	36
- loss on impairment on investments	344,175	1,248,877	28
- loss on disposal on investments	9,679,511	12,566,364	77
- other expenses from investments	8,358,249	37,114,486	23
Other insurance expenses	14,950,707	11,819,639	126
Other expenses	17,814,012	15,594,244	114
- expenses from financing	2,867,130	1,507,022	190
- other expenses	14,946,882	14,087,222	106
Profit before tax	84,611,607	78,457,252	108
Income tax expense	13,997,191	12,913,388	108
Net profit for the period	70,614,416	65,543,864	108

Financial result ratios of Zavarovalnica Triglav

Financial result ratios	2019	2018	2017
Return on equity	12.4%	11.6%	11.0%
Loss ratio	55.1%	55.4%	58.5%
Expense ratio	30.5%	30.7%	29.4%
Combined ratio	85.6%	86.1%	87.9%
Operating expenses of insurance business in gross written premiums	25.7%	26.4%	27.0%