

7 Performance of the Triglav Group and Zavarovalnica Triglav

- In 2016, the challenging competitive conditions on the insurance markets of the Triglav Group continued.
- The premium growth was recorded in all insurance markets.
- The Triglav Group maintained its leading market position in Slovenia, Montenegro and Macedonia. Furthermore, the Group improved its position in Bosnia and Herzegovina and in Serbia and maintained its market position in Croatia.
- Exceptionally low interest rates no longer enable high returns on investment.

7.1 The general economic environment worldwide and in Slovenia

Slovenia's real
GDP growth
was 2.3%.

The global economic recovery was slow and uncertain at just over 3% growth rate. Due to the relatively low growth rate, a significant rise in political polarisation and protectionist-oriented policies was seen in the developed economies, while the emerging markets witnessed a gradual slowdown in economic growth, in many countries under the influence of international trends and movements in the prices of raw materials. The economy of the euro area experienced moderate growth at nearly 2%, mainly fuelled by private consumption resulting from the improved labour market situation, while investment consumption recovered only modestly.

Despite many uncertainties in the international environment, Slovenia recorded strong economic growth for the third consecutive year. According to the autumn forecast of the Institute of Macroeconomic Analysis and Development (hereinafter: IMAD), in 2016 the **growth rate of Slovene GDP in real terms** remained at the 2015 level, i.e. 2.3%, which was considerably higher than in the euro area. Recovery is primarily driven

by vigorous international trade, even though its contribution has been declining over the years. A marked improvement in labour market conditions and a high level of consumer confidence boosted household consumption; in addition, higher growth was seen in government consumption. Investment strongly decreased as the result of low government investment due to a low absorption of EU funds, while private investment recovered slowly despite the more favourable situation in financial markets.

The favourable trends in the labour market continued. The employment rate considerably increased, and the unemployment rate dropped. According to IMAD's forecasts, the number of unemployed decreased to 103.4 thousand and the registered unemployment rate to 11.2%. The purchasing power of population strengthened as a noticeable increase was seen primarily in the wages in the public sector, whereas the wages in the private sector will follow slowly. Lower energy prices continued to have a decisive impact on the inflation rate in 2016, which was slightly negative on average. Slovenia officially exited the excessive deficit procedure of the European Commission. According to the EC autumn forecast, Slovenia ended 2016 with a relatively low 2.4% budget deficit, reducing its general government gross debt to 80.2% of GDP.

Unlike the year before,
the reporting year was
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in terms of
mass loss events.

In addition to the uncertain outcome of Brexit and the US presidential elections, the capital markets were influenced by the continued expansionary monetary policies of central banks throughout the year. In early 2016, the European Central Bank increased bond purchases, while the American FED raised its key interest rate only once, i.e. at the year-end. Thus, the value of the dollar against the euro strengthened by over 3%. In parallel with higher uncertainty, the return on government bonds again reached historically low, even negative levels. In mid-2016, credit spreads on Slovene government bonds witnessed a stronger decline, mainly reflecting improved country risk assessment of major rating agencies. At the year-end, return on 10-year German government bond stood at only 0.21% and that of Slovene at only 0.85%. Therefore return on both bonds again fell at an annual level, i.e. by 0.42 percentage point and 0.82 percentage point respectively. Towards the end of 2016, a positive sentiment was observed in world stock indexes, recording a relatively high annual growth.

Global economic growth forecasts for 2017 are slightly more favourable compared to 2016. The developing markets will once again contribute the most to the growth of over 3%, while the developed economies will be recovering relatively successfully. Forecasts are characterised by a high level of uncertainty, mainly due to the rise in protectionism. At 2.9%, economic growth forecast for Slovenia is slightly more favourable. The favourable trends in the labour market will considerably boost household consumption. A lively international trade will continue, which however will be the largest uncertainty factor for the Slovene economy in the coming year.

Due to an increase in positive sentiment, 2017 is expected to be successful for stock markets, whereas for bond markets it will probably be unfavourable. The FED will continue to raise key interest rates due to inflationary pressures, while as the situation in the euro area normalises the ECB will announce its decision on slowing down the pace of its quantitative easing programme at the end of the year. Following higher inflationary expectations and improved economic growth forecasts, return on government bonds is expected to noticeably increase.

7.2 Environmental impact on the performance of the Triglav Group and Zavarovalnica Triglav¹³

Despite the economic recovery and the premium growth on the insurance markets, where the Triglav Group operates, the conditions of these markets remained challenging. Total written premium was affected by further aggressive price competition among insurers. The downward pressure of policyholders on the premium is high as the policyholders increasingly respond to the cheapest insurance products available. The Company and its subsidiaries respond to the demanding market conditions by adapting their marketing and sales policies, launching new products and redesigning the existing ones, and taking measures to improve the insurance technical result in non-life insurance. See [→ *Section 11. Development and sales activities*] for more details.

The Group's business results were influenced by the changed situation on capital markets, which no longer resulted in high investment returns mainly due to exceptionally low interest rates.

Unlike the preceding year, the reporting year was less favourable in terms of mass loss events. Moreover, the reporting year saw several mass loss events in the amount of EUR 19.0 million, which impacted the Group's performance. At the end of April, frost and several minor local floods across Slovenia caused a damage of EUR 5.8 million, mostly on crops. Summer storms with hail (4 mass loss events) resulted in claims of EUR 9.9 million, foremost in Eastern Slovenia. At the end of April, frost in Croatia caused damage on crops of EUR 1.9 million. In May in Macedonia, hail caused damage on crops in the amount of EUR 617 thousand, whilst due to the August floods claims totalled EUR 127 thousand. At the end of June, storms with hail caused claims of EUR 365 thousand in Croatia, EUR 207 thousand in Serbia and EUR 118 thousand in Montenegro (crops, motor vehicles and real property).

7.3 Insurance markets in 2016¹⁴

According to the most recent official data published by Swiss RE, the global insurance market recorded a 4% growth in 2015 (approximately the same as one year earlier). There was a change in the leading position because America (North America and South America combined) increased its share by 1.5 percentage points to 34.9% of global insurance premium. With a 32.3% share of global written premium, Europe's leading market lasting position weakened, having decreased by 3.3 percentage points compared to the year before. Among all continents, Asia recorded the highest growth rate of 8% and again increased its share, to 29.7% this time (an increase of 2.1

percentage points compared to 2015). Africa maintained its share in the global insurance market (1.4%), whilst Oceania decreased its share to 1.8% (2.1% in the previous year).

In 2015, the Slovene insurance market was ranked 57th in the global insurance market, having dropped by two ranks over 2014. Although the Slovene market is 146 times smaller than the British market, which is the largest European insurance market, it is nonetheless well developed, accounting for only 0.05% of the global insurance market. Its development is shown by relative indicators. On the world scale, Slovenia is ranked 31st by premium per capita and 33rd by insurance penetration (premium share in GDP), two ranks lower compared to the previous year.

Premium per capita and market penetration in Slovenia and certain European countries in 2015

	Premium per capita		Insurance penetration	
	(in USD)	World rank	(% of GDP)	World rank
Slovenia*	1,063	31	5.1%	33
Austria	2,261	23	5.2%	29
Croatia	299	52	2.6%	50
Czech Republic	592	37	3.3%	43
Great Britain	4,359	8	10.0%	9
Switzerland	7,370	2	9.2%	12
Turkey	141	62	1.6%	71
Greece	381	43	2.1%	60
Serbia	105	67	2.1%	61
Europe	1,634	-	6.9%	-
EU	2,412	-	7.6%	-

Source: Swiss RE, SIGMA 3/2016

* Data on premium for Slovenia obtained from the Slovenian Insurance Association

In 2015, premium share in GDP accounted for 5.1% (the latest published data by the Slovenian Insurance Association), which is the lowest share in the last ten years. At EUR 958, the average premium per capita slightly increased compared to the year before, reaching approximately the same level as in 2013 (the highest average premium per capita in Slovenia was recorded in 2010 at EUR 1,023).

In 2016, the Slovene insurance market recorded a 1.5% premium growth. Insurance companies, members of the Slovenian Insurance Association, charged a total of EUR 2,033.4 million in premium written. After a few years of decline, non-life insurance (excluding health insurance) experienced growth. Health insurance premiums increased, whilst life insurance premiums decreased. Motor vehicle insurance, which is characterised by the highest degree of price competitiveness, grew by 4%, i.e. both motor vehicle liability insurance (after several years of decline) and comprehensive car insurance (after the fall in 2015). This premium increase was primarily generated by real property insurance, general liability insurance and assistance insurance. Life insurance premium dropped due to a decrease in unit-linked life insurance and traditional life insurance. On contrast, supplemental voluntary pension insurance (SVPI) recorded a 10% growth.

Insurance market development in Slovenia

Premium per capita (2015 data)	EUR 958
Premium as a percentage of GDP (2015 data)	5.1%
Insurance market growth index in 2016	101.5

Source: Slovenian Insurance Association

Slovene insurance market growth by segments in 2013–2016

Insurance class	Insurance premium (in EUR million)				Nominal change in growth (in %)		
	2016	2015	2014	2013	2016/2015	2015/2014	2014/2013
Non-life insurance	967.8	926.4	930.5	942.6	4.5%	−0.4%	−1.3%
Life insurance	576.0	594.2	535.4	553.0	−3.1%	11.0%*	−3.2%
Health insurance	489.6	483.0	471.7	482.0	1.4%	2.4%	−2.1%
Total	2,033.4	2,003.6	1,937.6	1,977.5	1.5%	3.4%	−2.0%

* An 11.0% life insurance premium growth in 2015 resulted also from the premium posted by Skupna pokojninska družba as the new member of the Slovenian Insurance Association; excluding Skupna pokojninska družba, life insurance premium growth would have been 5.7%.

There were 14 insurance companies, 4 foreign branch offices and 2 reinsurance companies active in the Slovene insurance market, all members of the Slovenian Insurance Association. In May 2016, Skupna pokojninska družba (member of the Triglav Group) joined the Slovenian Insurance Association. As of November, the new insurance company Sava has operated on the market. It was established through the merger of Zavarovalnica Maribor, Tilia and two Velebit insurance companies (operating in Croatia).

There were 10 composite and 8 specialised insurance companies (life, health and non-life insurance) insurance companies. **Non-life insurance**, accounting for 72% of total premium, experienced a 3.4% growth, (non-life insurance premium excluding health insurance premium was higher by 4.5%), whilst **health insurance premium** was 1.4% higher. The **life insurance premium** was 3.1% lower compared to 2015, whilst one year earlier it recorded a 5.7% growth (taking the premium of Skupna pokojninska into account, the growth would have been 11%). The data do not include insurance transactions concluded in Slovenia directly by foreign-owned subsidiaries (FOS). Their share is growing but, it is still negligible. Zavarovalnica Triglav directly operates in all 28 EU Member States.

The Slovene insurance market continues to be characterised by a high degree of concentration as the four major insurers controlled 74.5% of the market. Despite a lower market share of 29.1%, **Zavarovalnica Triglav** remained the market leader (2015: 29.2%). The second largest market share was held by a new insurer Zavarovalnica Sava, a company 1.7 times smaller. With a 36.2% market share on the Slovene insurance market, **the Triglav Group** (parent company, Triglav, Zdravstvena zavarovalnica and Skupna pokojninska družba) increased its share by 0.2 percentage point over the preceding year. The Triglav Group's market shares by segments were the following:

- non-life insurance: 43.6% (44.3% in 2015);
- life insurance: 34.6% (34.2% in 2015); and
- health insurance: 23.5% (22.5% in 2015).

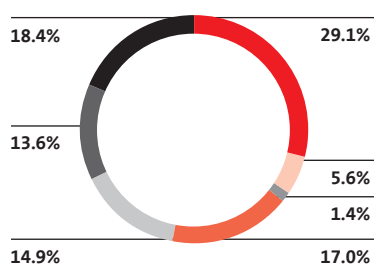
Zavarovalnica Triglav's **life insurance** market share was 29.6%, which is 0.2 percentage points more compared to the previous year, whilst the **non-life insurance** market share stood at 28.9% (0.2 percentage points less than in 2015).

Triglav, Zdravstvena zavarovalnica increased its market share by 0.9 percentage point to 23.4%, consolidating its 2nd rank among the health insurance providers. Among the top three **health insurance providers** (accounting for 99.4% of the health insurance market), it recorded a premium growth of 5.4%.

Skupna pokojninska družba ranked first on the **supplemental voluntary pension insurance** market in terms of accumulated assets, holding an 18.9% market share (data for Q1–3 2016).

The aggressive price competition is intensifying and therefore maintaining the leading position remains quite a challenge. In a market characterised by a high concentration, the competition targets the existing policyholders. Therefore, maintaining its market position will greatly depend on the Company's speed of responses to market changes.

The 2016 market share of insurance companies in Slovenia



- Zavarovalnica Triglav
- Triglav, Zdravstvena zavarovalnica
- Skupna pokojninska družba
- Zavarovalnica Sava
- Adriatic Slovenica
- Vzajemna
- Other insurance companies

Source: Slovenian Insurance Association

7.4 Triglav Group's operations in other markets¹⁵

7.4.1 South-East Europe

The Triglav Group operates on the insurance markets in Croatia, Bosnia and Herzegovina, Montenegro, Serbia and Macedonia. In most of these countries, life and non-life insurance products are sold, while in Macedonia only non-life insurance products are offered.

In 2016, the countries of South-East Europe witnessed moderate economic growth. Their insurance markets remain relatively undeveloped, thus it is estimated that they have major development potential. Positive trends and premium growth were seen on all the insurance markets in which the Group operates.

Written premium maintains its structure. In total written premium, the largest segment remained non-life insurance with motor vehicle insurance accounting for the bulk. The life insurance market has continued to increase gradually.

Main macroeconomic indicators for 2016 by insurance market of the Triglav Group

Macroeconomic indicators	Slovenia	Croatia	Bosnia and Herzegovina	Montenegro	Serbia	Macedonia
Population (in million)	2.1	4.2	3.9	0.6	7.1	2.1
GDP growth (estimate in %)	2.3	1.9	3.0	5.1	2.5	2.2
2016 GDP (estimate in USD billion)	44.1	49.9	16.5	4.2	37.8	10.5
2016 GDP per capita (estimate in USD)	21,370	11,858	4,289	6,809	5,294	5,060
2016 inflation rate (estimate in %)	-0.3	-1.0	-0.7	0.5	1.3	0.1
2016 unemployment rate (estimate in %)	8.2	16.4	25.4	16.9*	18.6	25.4

Source: IMF, World Economic Outlook, October 2016, *Agency for Statistics of Montenegro

The Triglav Group increased its market share in Slovenia, Croatia, Serbia and the Federation of BiH, while maintaining its leading position in Slovenia, Montenegro and Macedonia. Furthermore,

the Group improved its position in Serbia and Bosnia and Herzegovina and maintained its market position in Croatia.

Market share trends in the insurance subsidiaries of the Triglav Group in 2016

Market	2016 market share	Market share trend	Ranked in 2016	Ranked in 2015
Croatia	4.2%	↑	9	9
Bosnia and Herzegovina	7.8%	■	4	5
- Federation of BiH	9.0%	↑	6	5
- Republic of Serbia**	5.2%	↓	9	9
Montenegro	38.9%	↓	1	1
Serbia*	4.8%	↑	5	6
Macedonia (non-life insurance)	17.9%	↓	1	1

* Date from January to September 2016

** The market share of Republika Srpska included market shares of Triglav Osiguranje, Banja Luka and Triglav Osiguranje, Sarajevo.

In the markets where the Group holds a high market share and a leading position, the **consolidation strategy** was pursued, whilst on the remaining markets, where the Group's presence is still being built, focus was on **strengthening the Group's position**. The Group will strive to ensure long-term profitability and increased

productivity through its recognisable Triglav brand and competitive advantages, while taking into account local legislation and risks.

Below are presented the characteristics of individual markets and the market position of the Group's subsidiaries.



7.4.2 Croatia

In 2016, the Croatian economy was marked by significantly faster economic growth than expected, the record-high tourist season and the decline in general government debt after many years despite political instability in the first half of the year. GDP continued to steadily grow, having increased by 2.9% (the IMF estimate: 1.9%) to the highest level since 2008. The main contributing factors were considerable growth in private consumption and the record-high tourist season, which had a strong impact on other sectors such as production, construction and transport.

The favourable international environment with low interest rates also contributed to a dynamic domestic economic activity. The continued significant growth in private consumption reflects the reduction in income tax in early 2015 and deflation.

Further positive effects resulting from the tax reform adopted in the last quarter of 2016 are expected in 2017. The tax reform aims at establishing a stable, simple and robust tax system and lower taxes for both enterprises and households. The decrease in budget revenue should be replaced by higher consumption and investment. A serious problem is the accelerated emigration of the working age population; if emigration continues, it may result in many negative consequences, reducing the potential for growth in the medium and the long term.

The Croatian insurance market continues to be highly concentrated, as the first five insurers hold almost 62% of the market. The largest insurance company, Croatia osiguranje, had a 25.9% market share and continued to hold a leading position in non-life insurance market, a drop of 0.6 percentage point compared to 2015. With an 18.5% market share, Allianz maintained its leading position in the life insurance segment (0.2 percentage point more than in the preceding year). With a 4.2% market share, having increased by 0.3 percentage point, **Triglav Osiguranje, Zagreb** maintained its ninth rank. Its growth was higher than the Croatian insurance market growth by almost 7 percentage points.

Insurance market

Insurance market development in Croatia

Premium per capita (2015 data)	EUR 269
Premium as a percentage of GDP (2015 data)	2.6%
Insurance market growth index in 2016	100.4

Source: Swiss RE, SIGMA 3/2016, Croatian Insurance Bureau

4.2% market share of Triglav Osiguranje d.d., Zagreb

In 2016, as many as 23 insurance companies operated in the Croatian insurance market (9 composite, 9 non-life and 5 life), which was one fewer than in 2015, since KD Life was merged to Adriatic Slovenica. Together the insurance companies recorded written premium in the total amount of HRK 8.8 billion (EUR 1.2 billion), which was approximately the same as the 2015 figure (index 100.4). Non-life insurance premium increased by 0.9%, whilst life insurance premium was down 0.5%. In the structure of written premium, non-life insurance accounted for 67% (2015: 66%) and life insurance for the rest.



9.0% market share of
Triglav Osiguranje, Sarajevo

5.0% market share of
Triglav Osiguranje,
Banja Luka

7.4.3 Bosnia and Herzegovina

The key economic challenge facing Bosnia and Herzegovina is the imbalance in the economic model of the country. The public policy and incentives are targeted at the public and not the private sector, stimulating consumption instead of investment and import instead of export. The Government should release the potential of the private sector and reduce the impact of a strong and inefficient public sector.

Due to the high budget deficit, the political and economic stability in the country is maintained by the loan tranches, approved by the IMF in 2012 in the total amount of EUR 670 million. The support of the IMF is also the key component of the new EU initiative for Bosnia and Herzegovina, which gave the green light to continue to implement the Stabilisation and Association Agreement. The condition for the Agreement is adopted structural and economic reforms with an emphasis on the labour market, healthcare and the pension scheme. In February 2016, Bosnia and Herzegovina submitted its application for EU membership and in December received the questionnaire, which has to be completed within 6 months. On the basis thereof, the European Commission will decide on the status of Bosnia and Herzegovina.

The planned economic growth, which is expected to reach 3% in the medium term, is largely based on higher consumption. The country will continue to receive support. Together with lower oil prices and the continued progress of the necessary reforms, it will facilitate increased consumption, which remains the cornerstone of growth. Investment in the energy industry, construction and tourism will contribute to greater economic growth and the creation of new jobs in these sectors. All these changes, along with the recent improvements in employment in agriculture, trade and the food industry, are expected to increase the employment rate to 40%. Considering these trends, a gradual rise in GDP is expected in the period up to 2020.

Insurance market

As at the 2016 year-end, 27 insurance companies operated in the Bosnian insurance market, 3 more over 2015, of which 13 were domiciled in the Federation of Bosnia and Herzegovina and the 14 in the Republic of Srpska. For such a small insurance market, the number of insurance companies is quite high, resulting in fierce competition. Insurance companies operating in the insurance market of the Federation of BiH collected BAM 435.9 million (EUR 222.9 million) and BAM 198.1 million in the Republic of Srpska (EUR 101.3 million). An increase was recorded in Bosnia and Herzegovina (7.7%), in the Federation of Bosnia and Herzegovina (by 7.4%) as well as in the Republic of Srpska (by 8.4%). In total written premium, the largest segment remained non-life insurance with a 79.6% share.

In the Federation of Bosnia and Herzegovina, the Agram Group (Bosna Sunce Osiguranje and Euroherc) is the market leader with a 21.7% market share. By increasing its market share by 0.1 percentage point to 9.0%, **Triglav Osiguranje, Sarajevo** ranked sixth in the market (vs. fifth in the previous year).

In 2016, in the Republic of Srpska Wiener osiguranje increased its market share to 10.0% (2015: 9.5%). With the market share of 5.0% (0.4 percentage point less than the year before), **Triglav Osiguranje, Banja Luka** maintained the ninth ranked. In 2016, in the Republic of Srpska the subsidiary Triglav Osiguranja, Sarajevo (sells only life insurance) increased its market share to 0.3% (2015: 0.1%).

In the insurance market of Bosnia and Herzegovina as a whole, the **two insurance companies of the Triglav Group** taken together ranked fourth (one rank higher than one year earlier) and maintained a 7.8% market share.

Insurance market development in Bosnia and Herzegovina

Premium per capita (2015 data)	EUR 85
Premium as a percentage of GDP (2015 data)	2.1%
Insurance market growth index in 2016	107.7

Source: Swiss RE, SIGMA 3/2016, FBIH Insurance Supervision Agency, RS Insurance Agency



7.4.4 Montenegro

In Q3 2016, the GDP growth was 2.4%. This was a result of successful performance in all sectors, particularly construction (construction of the Bar–Boljare motorway), tourism, industry and consumption. The average annual inflation rate of –0.2% was negative. According to the data of the Ministry of Finance, general government gross debt at the end of September stood at 61.9% of GDP, while deficit was 13% higher than in 2015. In the last two years, a rise in the unemployment rate was observed, which reached 16.9% in 2016, whereas the average net salaries went up by 4%.

According to the World Bank estimates, the anticipated economic growth for 2016 is 3.4% (the IMF estimate: 5.1%). It is expected to increase in 2017, mainly as a result of intensive construction of motorways. Furthermore, favourable developments in tourism are expected to result from new hotel capacities. Montenegro's development and economic growth largely depend on its fiscal policy, which should be aimed at achieving the public debt lower than 60% of GDP in the medium term.

Insurance market

Insurance market development in Montenegro

Premium per capita (2015 data)	EUR 124
Premium as a percentage of GDP (2015 data)	2.1%
Insurance market growth index in 2016	104.2

Source: Insurance Supervision Agency of Montenegro

38.9% market share of Lovćen osiguranje and Lovćen životna osiguranja

On the Montenegrin insurance market, 11 insurance companies (5 selling non-life and 6 life insurance) collected EUR 80.1 million in written premiums, i.e. 4.2% more compared to the previous year. Non-life insurance and life insurance premiums both increased compared to 2015 – by 3.8% and 5.8% respectively. In total written premium, the largest segment remained non-life insurance with an 82.9% market share.

The insurance companies of the Triglav Group **Lovćen Osiguranje** and its subsidiary **Lovćen životna osiguranja** together reached the market share of 38.9% (0.6 percentage point less than in 2015), maintaining the leading position. Lovćen Osiguranje is followed by Uniqa (a 15.4% market share in non-life and life insurance together) and Sava Montenegro (a 14.5% market share).



7.4.5 Serbia

Agriculture, industry and service sector contributed to a higher GDP growth, which was 2.7%. Fiscal consolidation continued and government budget was balanced in the first half of 2016. The improved budgetary situation is primarily the result of higher revenue, public debt fell to 74.9% of GDP in the first half of 2016. Lower food prices and reduced demand caused the inflation rate to decline, which was 1% on average and well below the expectations of the National Bank of Serbia.

The unemployment rate continued to decline from 17.7% in 2015 to 15.2% in 2016. Net salaries climbed by 2%.

In the medium term, the expected economic growth will increase to around 3.5%, mainly fuelled by higher investment, as in 2016, while the effect of the growing consumption will only be visible in later periods.

Compared to the corresponding period of 2015, **Triglav Osiguranje, Belgrade** recorded a 24.1% rise in the volume of written premium in the first nine months of 2016 which was 14.1 percentage points above the growth rate of the Serbian insurance market as a whole. Compared to 2015, Triglav Osiguranje, Belgrade increased its market share to 4.8% (vs. 4.2% in the previous year) and was ranked fifth, a rank higher than the year before.

Insurance market

Insurance market development in Serbia

Premium per capita (2015 data)	EUR 95
Premium as a percentage of GDP (2015 data)	2.1%
Insurance market growth index in 2016 (Q1-3)	110.0

Source: Swiss RE, SIGMA 3/2016, National Bank of Serbia.

4.8% market share of Triglav Osiguranje, Belgrade

As many as 19 insurance companies were active in the Serbian market (6 composite, 8 non-life and 5 life insurers), one fewer than in 2015 as AS osiguranje was merged with Sava osiguranje. The majority of insurance companies were foreign-owned, while the largest insurance company Dunav (a 26.6% market share) is state-owned. The market is highly concentrated, as the first three insurers hold almost 61% of the market (Dunav, Delta Generali and DDOR).

Total written premium was 10% higher in the first nine months of 2016 and amounted to nearly RSD 66.7 billion (EUR 543.0 million). Life insurance products recorded a high 18.9% growth rate, whilst non-life insurance products grew by 7.6%. In total written premium, by far the largest segment remained non-life insurance with a 77% market share, although non-life insurance premium is increasing.



7.4.6 Macedonia

The growth of GDP from 2015 continued, reaching 2.3% in the third quarter. The data from the last quarter show the same intensive growth, with export and private consumption contributing the most. In contrast, gross investment decreased, while public consumption remained at the same level. A sectoral analysis showed that the highest contribution to growth came from the service sector, followed by construction and information and communication.

GDP growth in 2016 was lower than expected according to the forecasts of the National Bank of Macedonia. The main reasons were not of economic nature but political developments in the country, which continue to increase the economic uncertainty.

According to the World Bank forecast, the public debt of Macedonia is expected to rise to 50% of GDP, in addition to higher government guarantees and general government deficit. The public debt will continue to increase in the medium term, primarily because of the Government's large-scale investment activities. In response to these developments, in August 2016 the credit rating agency Fitch reduced the rating of Macedonia from »BB+« to »BB« with a negative outlook.

The five largest insurers operating in the concentrated insurance market booked 53% of total premium. The market concentration was particularly high in the life insurance segment, with Croatia život and Grawe controlling 79% of the market.

With a 15.2% market share, **Triglav Osiguranje, Skopje** continues to hold the leading market position in the Macedonian insurance market. The insurer only sells non-life insurance, holding 17.9% of the non-life insurance market (vs. 18.0% in 2015). The subsidiary is followed by Makedonija Osiguranje with 10.7% and Eurolink holding a 9.7% market share.

Insurance market

Insurance market development in Macedonia

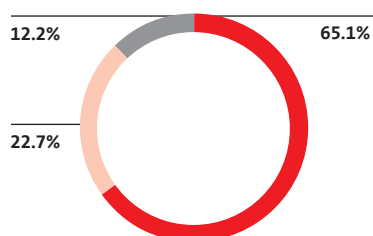
Premium per capita (2015 data)	EUR 65
Premium as a percentage of GDP (2015 data)	1.5%
Insurance market growth index in 2016	105.3

Source: Insurance Supervision Agency of Macedonia

17.9% market share in Triglav osiguranje, Skopje (non-life insurance)

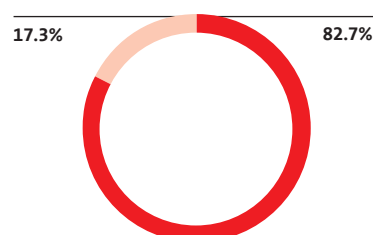
There are 15 insurers in the insurance market of Macedonia (11 in the non-life insurance segment and 4 in the life insurance segment). Makedonija Osiguranje also holds a reinsurance licence. In 2016, the written premium totalled MKD 8.7 billion (EUR 120.6 million) or 5.3% more than in the year before. The non-life insurance premium accounted for as much as 85.2% of total premium in the market. Life insurance products recorded a high 17.3% growth rate, whilst non-life insurance products grew by 3.5%.

Consolidated gross written premiums
from insurance and co-insurance
contracts of the Triglav Group
by segment



■ Non-life
■ Life
■ Health

Consolidated gross written premiums
from insurance and co-insurance
contracts of the Triglav Group
by market



■ Slovene market
■ Other markets

+2%
Growth in consolidated
written premiums
from insurance and
co-insurance contracts of
the Triglav Group

7.5 Gross written premiums from insurance and co-insurance contracts

In the reporting period, the Triglav Group posted a total of EUR 936.0 million in gross written premiums from insurance and co-insurance contracts or 2% more than one year earlier. Thus, the positive trend of the previous year continued as premiums increased by 3%. Premium growth was recorded in non-life and health insurance segments, whereas the life insurance premium remained at a level approximately equal to the previous year.

- **Non-life insurance:**
EUR 609.3 million, index 102;
- **Health insurance:**
EUR 114.2 million, index 105;
- **Life insurance:**
EUR 212.6 million, index 100.

Consolidated written premium had a similar structure as in the year before:

- non-life insurance accounted for 65.1% (the same in 2015);
- life insurance 22.7% (in 2015 23.1%); and
- health insurance for 12.2% (in 2015 11.8%).

Their share in gross written premium on the markets outside Slovenia slightly increased. A total of 82.7% of consolidated gross written premiums was charged in the Slovene insurance market, representing a 0.1 percentage point less than in 2015.

The premium growth was recorded in all insurance markets. Insurance subsidiaries of the Triglav Group (excluding Pozavarovalnica Triglav Re) booked EUR 898.9 million in non-consolidated gross insurance and co-insurance premiums, or 2% more than the year before.

In the Slovene insurance market, 1% more in written premium was charged by the parent company, whereas Triglav, Zdravstvena zavarovalnica and Skupna pokojninska družba recorded 6% and 3% higher written premium respectively. Triglav Osiguranje, Belgrade recorded as much as 22% premium growth, Lovćen životna osiguranja 12%. Written premiums were higher in Triglav Osiguranje, Sarajevo (10%), Triglav Osiguranje, Zagreb (8%), Triglav Osiguruvanje, Skopje and Lovćen Osiguranje, Podgorica (2%). The premiums by Triglav Osiguranje, Banja Luka remained at the same level as the year before (index 100).

Gross written premiums from insurance and co-insurance contracts in 2016 by insurance company of the Triglav Group

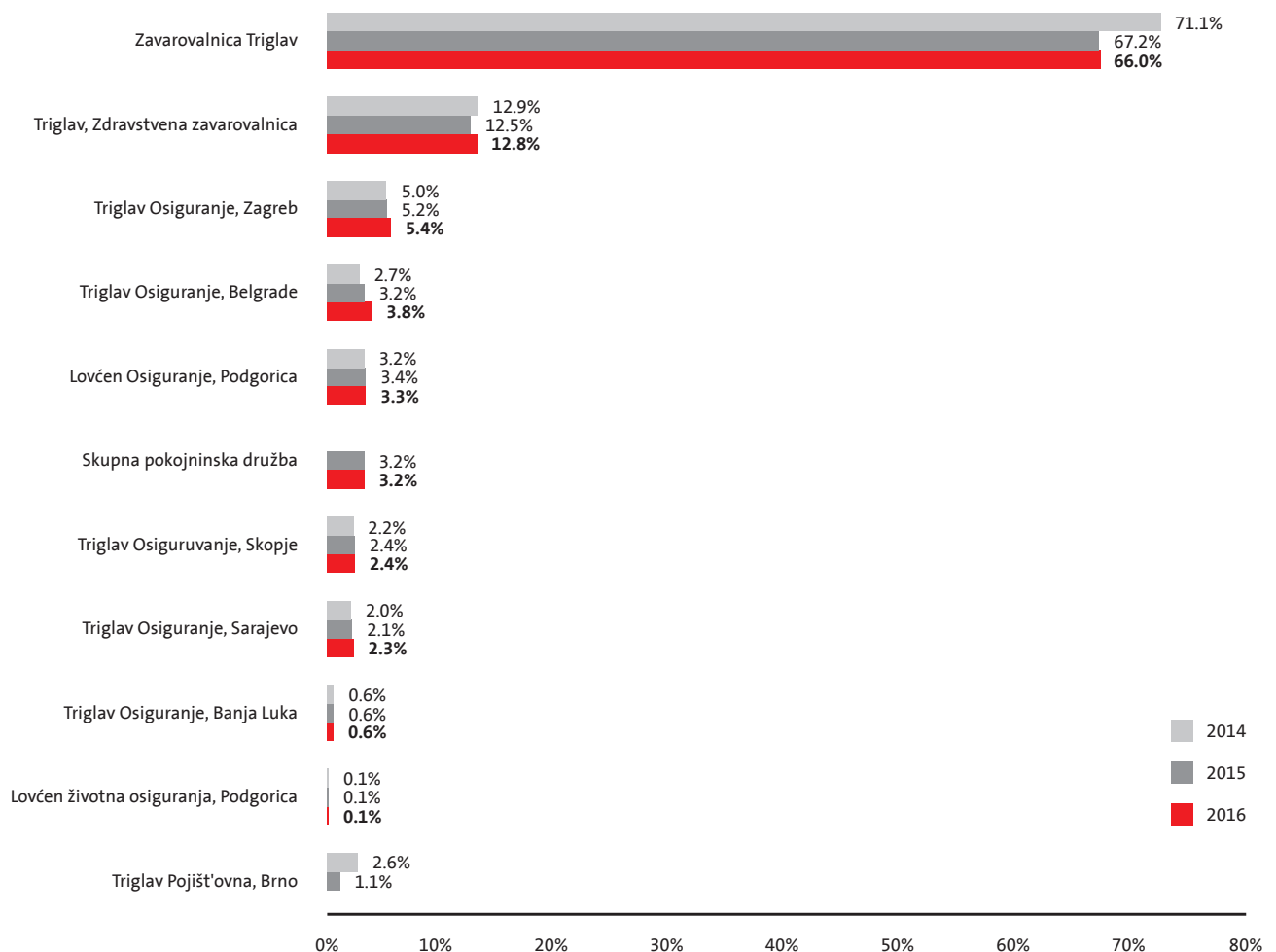
Insurance company	Gross written premium			Index**			Structure
	Non-life	Life	Total	Non-life	Life	Total	2016
Zavarovalnica Triglav*	422,851,923	170,270,342	593,122,265	103	97	101	66.0%
Triglav, Zdravstvena zavarovalnica	114,996,565		114,996,565	106	0	106	12.8%
Skupna pokojninska družba		29,180,077	29,180,077	0	103	103	3.2%
Triglav Osiguranje, Zagreb	41,047,544	7,889,734	48,937,278	110	102	108	5.4%
Triglav Osiguranje, Sarajevo	15,429,688	5,059,860	20,489,548	106	125	110	2.3%
Lovćen Osiguranje, Podgorica	29,915,556		29,915,556	102	0	102	3.3%
Triglav Osiguranje, Belgrade	32,247,323	2,161,929	34,409,252	117	332	122	3.8%
Triglav Osiguranje, Banja Luka	5,027,712		5,027,712	100	0	100	0.6%
Triglav Osiguruvanje, Skopje	21,555,079		21,555,079	102	0	102	2.4%
Lovćen životna osiguranja, Podgorica		1,254,360	1,254,360	0	112	112	0.1%
Total	683,071,390	215,816,302	898,887,692	103	100	102	100.0%
Pozavarovalnica Triglav Re	117,417,689		117,417,689	100	0	100	
Consolidation eliminations	-77,047,589	-3,253,977	-80,301,566	102	81	101	
Total consolidated	723,441,490	212,562,325	936,003,815	102	100	102	

Note:

* The insurance companies' data already include the pre-consolidation adjustments.

** In calculating growth, premium of the Czech insurer Triglav Pojišťovna in the period from 1 January 2015 to the date the insurer was sold were taken into account.

The structure of gross written premiums from insurance and co-insurance contracts in the period from 2014–2016 by insurance company of the Triglav Group



7.5.1 Non-life insurance

In total, Triglav Group insurance companies charged EUR 683.1 million of non-consolidated insurance and co-insurance premiums from non-life insurance contracts, which represented a 3% increase compared to the year before.

+3 %
Growth in non-consolidated
non-life insurance premium of
the Triglav Group

In total written premium, **motor vehicle insurance**, the largest insurance class accounted for 29.9% (2015: 30.3%). The Triglav Group insurance subsidiaries collected EUR 116.5 million in **comprehensive car insurance** premium or 3% more compared to 2015. Premium growth in this insurance class was seen in all insurance companies, excluding Lovćen Osiguranje, (loss of premium from a major client). The highest premium growth rates were posted by Triglav Osiguranje, Zagreb (index 121), Triglav Osiguranje, Belgrade (index 118) and Triglav Osiguruvanje, Skopje (index 114). Zavarovalnica Triglav, accounting for 84% of total premium, recorded a 4% growth in written premium.

The Group collected EUR 151.7 million in **motor liability insurance** premiums, which was 2% less than in the preceding year. This insurance class continues to play the most important part on the developing markets outside Slovenia, on which all insurance companies of the Group experienced premium growth. The largest premium increase of 20% was experienced by Triglav Osiguranje, followed by Triglav Osiguranje, Belgrade with 11%. In insurance subsidiaries, premium growth resulted from:

- successful sales campaigns;
- higher insurance density; and
- strengthened activities of sales networks.

The parent company, accounting for 58% of the motor vehicle liability insurance premium total, saw a 2% drop in premium. The total premium was mostly impacted by:

- a persisting aggressive price competition among insurance companies;
- increased requirements of policyholders to reduce premiums due to their increasingly higher susceptibility to the cheapest offerings (commercial and other discounts) and subsequently the willingness to change their insurer;
- several sales promotion activities and continued inclusion of policyholders in the "Triglav komplet" bonus programme.

In the **real property insurance class** (fire and natural disaster insurance and other damage to property insurance) a premium of EUR 158.3 million was booked, having increased by 2%. In fire and natural disaster insurance, a premium growth of 1% was recorded, while in other damage to property insurance a 3% premium growth was seen. The premium in the real property insurance booked by the parent company accounted for 80% of the Group's total premium, up by 3% compared to the year before. Premium growth was the result of the increased number of new business partnerships with domestic business entities, the gradual revival of private and public infrastructure investment and growth in international insurance. The strongest increase in written premium was observed in Triglav Osiguranje, Belgrade of 35% as a result of attracting new policyholders, increased scope of insurance coverage of some existing policyholders, increased sales volume through insurance brokers and acquired public invitations to tenders. Premium written increased in Triglav Osiguranje, Sarajevo (index 107), while other insurance companies recorded a drop in premium. The highest decrease in premium written was observed in Triglav Osiguranje, Banja Luka (index 83) and Triglav Osiguranje, Zagreb (index 93). In Triglav Osiguranje, Banja Luka, insurance policies of some major policyholders were not renewed, while in Triglav Osiguranje, Zagreb, the main reason for the premium decrease were the revised agricultural insurance subsidies, which affected its renewal.

A growth of 7% was seen in **health insurance**, where the Triglav Group wrote EUR 116.7 million in premiums. Triglav, Zdravstvena zavarovalnica generated the largest portion of the premium amounting to EUR 115.0 million, having increased by 6%, foremost due to successful marketing of supplemental health insurance products (accounting for the bulk of premium) and of other insurance classes. A high increase in premiums was also recorded in Triglav Osiguruvanje, Skopje, Lovćen Osiguranje, Podgorica and Triglav Osiguranje, Belgrade. In 2016, the parent company also started selling health insurance products (rehabilitation insurance after a road accident), which booked a premium of EUR 442 thousand.

Accident insurance accounted for 4.6% of total written premium or EUR 41.7 million in nominal terms, which was 1% lower than one year earlier. Most insurance companies recorded a premium decrease; in contrast premium growth was recorded by Triglav Osiguranje, Zagreb and Lovćen

+7 %
Growth in non-consolidated
health insurance premium of
the Triglav Group

EUR 215.8 million Non-consolidated gross life insurance premium

Osiguranje. The reasons for lower premiums in accident insurance (index 98) in Zavarovalnica Triglav could be ascribed to the situation in the motor vehicle insurance market. Almost half of accident insurance premiums comes from two insurance sub-classes taken out simultaneously with car insurance (driver and passenger accident insurance and the driver's bodily injury insurance or AO-plus insurance). A 2% decrease in group accident insurance premium as the largest insurance subclass of accident insurance class (40%) of the parent company was primarily the consequence of reduced operating expenses of companies. Premium drop was experienced by Triglav Osiguranje, Belgrade (index 93) mostly due to the revised Insurance Act as it does not allow for taking out the accident insurance of persons against death due to illness. In Triglav Osiguruvanje, Skopje and Triglav Osiguranje, Zagreb premium written decreased by 2%. Premium drop was experienced by the Macedonian insurer, owing mostly to the premium non-renewal of two large, whilst a premium decrease in Triglav Osiguranje, Sarajevo stemmed from the lower premium of some major policyholders in group accident insurance and car accident insurance.

In **general liability insurance**, the Triglav Group recorded a 13% premium growth or EUR 40.8 million in nominal terms, representing 4.5% of total premium. Zavarovalnica Triglav, accounting for 81% of total premium, saw a 14% growth in written premium compared to the preceding year. A high premium growth is predominantly a result of a 25% growth in product liability insurance and a 9% increase in general liability insurance, the largest subclass. The parent company achieved premium growth by attracting new policyholders and increasing the scope of insurance coverage with certain existing policyholders. The strongest increase in premiums written was observed in Triglav Osiguranje, Belgrade (index 149) and Triglav Osiguruvanje, Skopje (index 113), due to acquiring new policyholders and increasing the scope of insurance coverage with certain existing policyholders. The Croatian insurer experienced a higher demand in general liability insurance due to Croatia's EU membership.

Credit insurance totalled EUR 24.8 million and accounted for 2.8% of total premium, which was 3% higher than the year before. Zavarovalnica Triglav (accounting for 99.4% of total premium) recorded a 3% growth in written premium. Good sales results were achieved in trade receivables insurance (covering the insolvency risk or the buyers default), insurance in the event of

unemployment, disability and death (sold by banks as an additional product taken out simultaneously with consumer and housing loans), payment card claims insurance and overdraft insurance. The premium of consumer loan insurance, the largest credit insurance subclass (63%), was 2% lower than one year earlier. The consumer loan insurance premium depends on the retail lending volume in banks.

In **other non-life insurance**, the Triglav Group collected EUR 32.7 million in premium or 6% more than at the 2015 year-end, which represented a 3.6% share of total premium. Most of the Group's insurance companies recorded premium growth, the highest rates in Triglav Osiguranje, Zagreb, Triglav Osiguranje, Sarajevo, Triglav Osiguruvanje, Banja Luka due to acquiring new policyholders and increasing the scope of policies of certain existing customers. Zavarovalnica Triglav, accounting for 74% of total premium, saw a 7% growth in written premium compared to the preceding year. This rise was primarily generated by business interruption insurance as a part of fire insurance and machinery breakdown insurance (an increased scope of insurance coverage of a large policyholder), aircraft insurance (premium growth internationally) and assistance insurance (roadside assistance premium growth). A lower premium was booked only by Triglav Osiguruvanje, Skopje (caused by a drop in premium from miscellaneous financial loss insurance resulting from non-renewal of insurance of certain major policyholders) and Lovćen Osiguranje, Podgorica (reduced premium of aircraft insurance due to the delay in the tendering procedure of a major policyholder).

7.5.2 Life insurance

In total, Triglav Group members charged EUR 215.8 million in non-consolidated gross written premium from **life insurance** contracts, which was approximately the same as in the previous year (index 100). This accounted for 24.0% of total gross written premiums, which was 0.6 percentage point lower than as at the 2015 year-end.

Premiums from **life insurance** (traditional life insurance, pension insurance, annuity pension insurance and voluntary pension insurance) amounted to EUR 96.9 million or 44.9% of the life insurance class total. The parent company recorded a 1% premium decrease mainly resulting from reduced premiums paid-in and lower retained sums paid out on the maturity (index 96). Significant growth in premium was

achieved by Triglav Osiguranje, Sarajevo (as a result of good sales via agencies and banking sales channels) and Triglav Osiguranje, Belgrade (as a result of good sales via internal sales network and banking sales channels). An increase in premiums was also recorded in Lovćen životna osiguranja and Triglav Osiguranje, Zagreb.

The premiums generated by **unit-linked life insurance** (life insurance linked to the units of investment funds) fell by 1% compared to the preceding year. With EUR 103.9 million, they represented 48.1% of the total life insurance premium. Unit-linked life insurance are available from Zavarovalnica Triglav (index 98), Triglav

Osiguranje, Zagreb (index 98) and Skupna pokojninska družba (index 103). The parent company recorded a premium increase predominantly resulting from lower retained sums paid out on the maturity and reduced premiums paid-in. The premium growth of Skupna pokojninska družba was mainly due to increased volume of premiums paid-in.

Supplemental voluntary pension insurance (capital redemption insurance) generated EUR 15.0 million or 7.0% of total life insurance premium. The 3% premium growth stemmed from higher regular premium payments and additional payments.

Non-consolidated gross written premiums from insurance and co-insurance contracts of the Triglav Group (excluding Pozavarovalnica Triglav Re) by insurance class

Insurance class	Gross written premium			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Accident insurance	41,671,957	42,045,659	42,470,287	99	99	4.6%
Health insurance	116,659,358	109,390,773	107,880,205	107	101	13.0%
Comprehensive car insurance	116,458,632	113,048,703	114,929,563	103	98	13.0%
Real property insurance	158,341,649	155,229,680	152,509,430	102	102	17.6%
Motor liability insurance	151,681,723	154,163,463	161,182,482	98	96	16.9%
General liability insurance	40,817,326	36,243,245	35,985,090	113	101	4.5%
Credit insurance	24,773,871	24,058,309	23,229,509	103	104	2.8%
Other non-life insurance	32,666,874	30,893,444	29,650,389	106	104	3.6%
Non-life insurance	683,071,390	665,073,276	667,836,955	103	100	76.0%
Life insurance	96,907,948	97,522,262	95,811,793	99	102	10.8%
Unit-linked life insurance	103,867,238	104,447,729	77,007,498	99	136	11.6%
Capital redemption insurance	15,041,116	14,613,360	14,281,171	103	102	1.7%
Life insurance	215,816,302	216,583,351	187,100,462	100	116	24.0%
Total	898,887,692	881,656,627	854,937,417	102	103	100.0%

Note: *According to the definition of the Insurance Supervision Agency, premiums of Skupna pokojninska družba are included in unit-linked life insurance.

Gross written premiums from insurance and co-insurance contracts of Zavarovalnica Triglav by insurance class

Insurance class	Gross written premium			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Accident insurance	28,798,922	29,255,847	30,520,339	98	96	4.9%
Health insurance	422,483	0	0	0	0	0.1%
Comprehensive car insurance	97,783,724	94,164,471	96,906,182	104	97	16.5%
Real property insurance	126,533,514	123,365,087	122,947,764	103	100	21.3%
Motor liability insurance	87,328,336	88,847,814	94,244,935	98	94	14.7%
General liability insurance	33,196,250	29,247,535	28,987,963	114	101	5.6%
Credit insurance	24,622,038	24,009,921	23,152,992	103	104	4.2%
Other non-life insurance	24,174,785	22,645,494	22,029,648	107	103	4.1%
Non-life insurance	422,860,052	411,536,168	418,789,823	103	98	71.3%
Life insurance	83,319,257	86,778,846	85,640,550	96	101	14.0%
Unit-linked life insurance	71,908,586	73,332,570	73,907,907	98	99	12.1%
Capital redemption insurance	15,041,116	14,613,360	14,281,171	103	102	2.5%
Life insurance	170,268,959	174,724,777	173,829,628	97	101	28.7%
Total	593,129,011	586,260,945	592,619,451	101	99	100.0%

7.5.3 Gross reinsurance written premiums of Pozavarovalnica Triglav Re

Pozavarovalnica Triglav Re booked a total of EUR 117.4 million of gross reinsurance written premiums, which was approximately the same level as the year before (index 100). In operations outside the Triglav Group, the reinsurance premiums experienced growth of 8%, whilst reinsurance premium earned with the Triglav Group decreased by 4%. The highest growth was recorded by Pozavarovalnica Triglav Re in other damage to property insurance and motor liability insurance, resulting primarily from the increase in transactions with ceding companies outside the Group. High increase in premiums from aircraft liability insurance, goods in transit insurance and aircraft insurance was recorded. The reinsurer increased its number of active reinsurance contracts made with cedents, mainly in the South-Asian markets, in China, Hong Kong, in the Czech Republic and in Germany.

+2%
Growth in consolidated
gross claims paid

7.6 Gross claims paid

In 2016, the consolidated gross claims of the Triglav Group were 2% higher over the previous year (including claim handling costs and subrogation receivables), totalling EUR 606.0 million. Gross claims paid in **non-life insurance** in the amount of EUR 329.5 million and stayed approximately at the same level as the year before (index 100). Gross claims paid experienced growth in **life insurance**, equalling EUR 182.2 million (index 102) and in **health insurance**, totalling EUR 94.2 million (index 109).

The Triglav Group insurance companies (excluding Pozavarovalnica Triglav Re) posted a total of EUR 580.0 million in non-consolidated gross claims, 2% higher compared to the preceding year. A high growth in gross claims paid was observed in most insurance companies: Triglav Osiguranje, Banja Luka (index 137), Triglav Osiguranje, Belgrade (index 125), Lovćen Osiguranje, Podgorica (index 120) and Triglav Osiguranje, Zagreb (index 114). The highest decrease in gross claims paid was recorded by Lovćen životna osiguranja (19%) and Triglav Osiguranje, Sarajevo (14%).

Gross claims paid in 2016 by insurance company of the Triglav Group

Insurance company	Gross claims paid			Index**			Structure
	Non-life	Life	Total	Non-life	Life	Total	2016
Zavarovalnica Triglav*	227,622,164	163,615,157	391,237,321	99	102	100	67.5%
Triglav, Zdravstvena zavarovalnica	94,247,696		94,247,696	109	0	109	16.3%
Skupna pokojninska družba		13,787,686	13,787,686	0	99	99	2.4%
Triglav Osiguranje, Zagreb	25,321,051	4,732,558	30,053,609	116	106	114	5.2%
Triglav Osiguranje, Sarajevo	7,838,525	1,399,766	9,238,291	90	71	86	1.6%
Lovćen Osiguranje, Podgorica	17,420,914		17,420,914	120	0	120	3.0%
Triglav Osiguranje, Belgrade	11,506,258	542,722	12,048,980	123	203	125	2.1%
Triglav Osiguranje, Banja Luka	1,843,236		1,843,236	137	0	137	0.3%
Triglav Osiguruvanje, Skopje	9,224,393		9,224,393	95	0	95	1.6%
Lovćen životna osiguranja, Podgorica		871,866	871,866	0	81	81	0.2%
Total	395,024,237	184,949,755	579,973,992	102	102	102	100.0%
Pozavarovalnica Triglav Re	54,273,094		54,273,094	95	0	95	
Consolidation eliminations	-25,515,697	-2,711,820	-28,227,517	87	79	86	
Total - consolidated	423,781,634	182,237,935	606,019,569	102	102	102	

Note:

* The insurance companies' data already include the pre-consolidation adjustments.

** In calculating growth, gross claims paid of the Czech insurer Triglav Pojišťovna in the period from 1 January 2015 to the date the insurer was sold were taken into account.

EUR 395.0 million
Non-consolidated
gross claims paid in
non-life insurance of
the Triglav Group.

7.6.1 Non-life insurance

Non-consolidated **non-life insurance** gross claims paid amounted to EUR 395.0 million or 2% more than the year before. The comparison of growth rates between claims and insurance premiums in non-life insurance shows that insurance premiums grew at a rate of 1.1 index point higher than claims. The profit level in the reporting period was also affected by major loss events, which is described in greater detail in [[→ Section 7.2 Environmental impact on the performance of the Triglav Group and Zavarovalnica Triglav](#)].

In **health insurance** gross claims increased by 9% to EUR 94.7 million, accounting for 16.3% of total gross claims. The increase in the number of policyholders and their changed age structure, which is nearing the Slovene average, resulted in higher average claims paid; in addition, the increase was affected by medical inflation. Equalisation scheme expenses decreased by 7% and totalled EUR 7.0 million.

Claims related to **comprehensive car insurance** grew by 2%. They represented 14.7% of total gross claims settled by the Triglav Group, amounting to EUR 85.4 million. The highest growth rates in gross claims paid were posted by Triglav Osiguranje, Belgrade (index 180) and Triglav Osiguranje, Zagreb (index 131). Both insurance subsidiaries recorded growth in gross claims paid mainly due to a larger portfolio and to a higher number of reported claims (the Croatian subsidiary also paid out 10 substantial individual claims). In Zavarovalnica Triglav, which accounted for 84% of the total, gross claims settled experienced a 2% growth. A decrease in claims was recorded only in Triglav Osiguranje, Sarajevo (index 88).

A decrease of 4% in gross claims paid was recorded in the **motor liability insurance class**. Gross claims paid amounted to EUR 79.5 million, which was 13.7% of all claims settled. This decrease resulted foremost from lower gross claims settled by the parent company, which accounted for 66% of total gross claims. Gross claims paid by the parent company decreased by 5% compared to 2015 mainly due to fewer reported claims. Other insurance subsidiaries recorded an increase in gross claims paid resulting from a higher number of reported claims due to larger portfolio. Several old and substantial claims as the result of the court ruling were paid out by Triglav Osiguranje, Zagreb and Lovćen Osiguranje.

In **real property insurance**, total claims paid amounted to EUR 73.8 million or 2% less than the

year before, accounting for 12.7% of total gross claims paid. In fire and natural disaster insurance, a 15% decrease in gross claims was recorded, whilst other damage to property insurance were 5% higher. The highest growth rates in gross claims paid were posted by Triglav Osiguranje, Banja Luka (payment of a substantial individual claim due to fire) and Triglav Osiguranje, Belgrade (payment of a substantial individual claim due to flood and damage on crops and buildings caused by storm with hail). Higher gross claims paid were posted by Triglav Osiguranje, Zagreb (fruit and crop claims caused by spring frost and storm with hail and settlement of some substantial individual claims) and by Lovćen Osiguranje, Podgorica (settlement of some substantial individual claims). Zavarovalnica Triglav's gross claims paid (79% share of the Group's total claims) remained at approximately the same level as in 2015 (index 100), in spite of high fruit and crop claims paid caused by spring frost and summer storms with hail. A high drop in claims paid was seen in fire insurance of civil risks, as the result of a large claim settlement made in 2015.

Gross claims paid in **accident insurance** equalled EUR 22.6 million and were 2% lower compared to the previous year. The decrease in claims in this insurance class was due to the drop in gross claims paid in the parent company and Lovćen Osiguranje (fewer reported claims from accident insurance for pensioners, occupational accident insurance and accident insurance for children, secondary school pupils and students). In accident insurance, 58% of total is accounted for by the parent company. Gross claims paid in accident insurance were down 1%, which is primarily a result of lower claims from the driver's bodily injury insurance or AO-plus insurance. In contrast, high growth in gross claims was posted by Triglav Osiguranje, Zagreb, Triglav Osiguranje, Belgrade and Triglav Osiguranje, Banja Luka due to a higher number of reported claims and settlement of some substantial individual claims.

Gross claims paid in **general liability insurance** amounted to EUR 14.7 million or 11% less than the year before. Gross claims paid by the parent company, accounting for the majority of total claims in this insurance class (86%), went down by 9%. The main reason for a decrease in gross claims paid was the payment of two substantial claims in the largest insurance subclass – general liability insurance in 2015. Due to fewer reported claims, a significant decrease in gross claims paid was observed in Triglav Osiguranje, Zagreb, Lovćen Osiguranje, Podgorica and Triglav Osiguranje, Sarajevo.

EUR 184.9 million
Non-consolidated
gross claims paid in
life insurance of
the Triglav Group.

Gross claims paid in **credit insurance** amounted to EUR 3.6 million and remained approximately at the same level as the year before (index 100). With 99.4%, gross claims paid by the parent company accounted for the bulk of total claims in this insurance class, having decreased by 1%. A significant growth in claims was recorded in Triglav Osiguranje, Sarajevo as a result of claim settlements to two policyholders.

Gross claims paid from **other non-life insurance** increased by 18% to EUR 20.7 million. High growth in gross claims was posted by majority of insurance subsidiaries, the highest by Lovćen Osiguranje, Triglav Osiguranje, Zagreb and Triglav Osiguruvanje, Skopje. In Lovćen Osiguranje high growth in gross claims resulted from substantial claim for aircraft insurance, in Triglav Osiguranje, Zagreb due to higher reported claims and payments arising from miscellaneous financial loss insurance, marine insurance and suretyship insurance. A high increase in claims in Triglav Osiguruvanje, Skopje was a result of settlement of a substantial claim aircraft liability insurance (claim occurred in 2008). The 2% growth in the parent company (75% share) primarily resulted from higher gross claims paid in goods in transit insurance (payment of a substantial claim in international transport insurance) and assistance insurance (roadside assistance).

7.6.2 Life insurance

Non-consolidated gross claims paid in **life insurance** totalled EUR 184.9 million. Despite a 2% increase in claims, their portion in total gross claims settled remained unchanged compared to 2015 and stood at 31.9%.

The bulk of all claims paid was accounted for by **life insurance** (traditional life, pension, annuity pension and voluntary pension insurance), having decreased by 2% to EUR 92.9 million compared to the 2015 year-end. Most insurance companies of the Group selling life insurance products recorded a decrease in gross claims paid. The highest decrease in gross claims paid was recorded by Triglav Osiguranje, Sarajevo (index 71) and Lovćen životna osiguranja (index 81) due to a decrease in sums paid out on the maturity and fewer surrenders. A decrease in claims of 2% was recorded by the parent company due to a lower number of surrenders and a decrease in sums paid out on the maturity.

Claims paid in **unit-linked life insurance** recorded an increase of 8%, amounting to EUR 83.9 million. Higher gross claims paid resulted primarily from an increase in sums paid out on the maturity in Zavarovalnica Triglav (index 110) and Triglav Osiguranje, Zagreb (index 146). In the reporting period, gross claims paid by Skupna pokojninska družba were down 1%.

Gross claims paid in **supplemental voluntary pension insurance** decreased by 11%. This decrease in Zavarovalnica Triglav, the only insurer offering this insurance type was primarily due to reduced payments arising from the transfers and withdrawals from insurance contracts.

Non-consolidated gross claims paid by insurance companies of the Triglav Group (excluding Pozavarovalnica Triglav Re) by insurance class

Insurance class	Gross claims paid			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Accident insurance	22,639,484	23,064,153	23,237,163	98	99	3.9%
Health insurance	94,651,607	86,682,236	80,637,406	109	107	16.3%
Comprehensive car insurance	85,351,958	83,274,316	86,380,096	102	96	14.7%
Real property insurance	73,796,966	75,167,036	101,320,873	98	74	12.7%
Motor liability insurance	79,535,216	82,791,181	88,309,906	96	94	13.7%
General liability insurance	14,712,114	16,560,500	16,289,316	89	102	2.5%
Credit insurance	3,646,000	3,632,285	4,094,322	100	89	0.6%
Other non-life insurance	20,690,894	17,535,492	17,332,517	118	101	3.6%
Non-life insurance	395,024,239	388,707,199	417,601,599	102	93	68.1%
Life insurance	92,946,327	95,215,388	96,417,739	98	99	16.0%
Unit-linked life insurance	83,944,181	77,621,450	69,749,831	108	111	14.5%
Capital redemption insurance	8,059,245	9,050,793	10,243,569	89	88	1.4%
Life insurance	184,949,753	181,887,631	176,411,139	102	103	31.9%
Total	579,973,992	570,594,830	594,012,738	102	96	100.0%

* According to the definition of the Insurance Supervision Agency, gross claims paid by Skupna pokojninska družba are included in unit-linked life insurance.

Gross claims paid of Zavarovalnica Triglav by insurance class

Insurance class	Gross claims paid			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Accident insurance	13,065,160	13,221,459	14,040,118	99	94	3.3%
Health insurance	1,679	0	0	0	0	0.0%
Comprehensive car insurance	71,787,832	70,653,044	72,370,300	102	98	18.3%
Real property insurance	58,346,493	58,171,331	77,776,342	100	75	14.9%
Motor liability insurance	52,673,278	55,687,886	55,984,098	95	99	13.5%
General liability insurance	12,714,091	13,984,074	14,116,832	91	99	3.2%
Credit insurance	3,623,689	3,666,758	3,909,616	99	94	0.9%
Other non-life insurance	15,408,940	15,088,156	14,419,871	102	105	3.9%
Non-life insurance	227,621,163	230,472,707	252,617,177	99	91	58.2%
Life insurance	86,948,253	88,473,479	89,900,409	98	98	22.2%
Unit-linked life insurance	68,607,658	62,570,579	68,360,419	110	92	17.5%
Capital redemption insurance	8,059,245	9,050,793	10,243,569	89	88	2.1%
Life insurance	163,615,157	160,094,850	168,504,398	102	95	41.8%
Total	391,236,320	390,567,557	421,121,575	100	93	100.0%

7.6.3 Gross claims paid by Pozavarovalnica Triglav Re

Gross claims paid from reinsurance contracts by Pozavarovalnica Triglav Re totalled EUR 54.3 million, or 5% less compared to the previous year. This decrease was primarily a result of reduced operations within the Triglav Group (index 83) due to a drop of gross claims in motor vehicle liability insurance, fire and natural disaster insurance. Gross claims paid in operations outside the Triglav Group were 9% higher primarily due to higher gross claims paid in motor vehicle liability insurance (larger number of claims paid arising from a Czech insurance policy) and other damage to property insurance (extensive damage due to an explosion in China).

7.7 Gross operating expenses

7.7.1 The Triglav Group

-7%
Lower consolidated
gross operating expenses of
the Triglav Group
compared to 2015.

Total consolidated gross operating expenses of the Triglav Group equalled EUR 277.1 million, decreasing 7% compared to the preceding year. **Insurance business expenses** grew by 2% to EUR 237.0 million. On contrast, **non-insurance business expenses** were down 39%, reaching EUR 40.0 million, mainly due to the sale of the stake of the Avrigo Group and of Slovenijales Trgovina, d.o.o. as their costs are no more included in the consolidated financial statements of the Triglav Group.

The growth of **insurance business** operating expenses was 0.5 index points higher than the growth of gross written premium. Operating expenses of insurance business accounted for 25.3% of consolidated gross written premium, which was 0.1 percentage point more than the year before. Operating expenses in **non-life insurance** increased by 2% (EUR 190.3 million), in the **life-insurance** segment they were up 1% (EUR 35.6 million) and in **health insurance** they climbed by 11% (EUR 11.1 million).

Acquisition costs (fees and commissions) totalled EUR 42.7 million and were 5% higher than in the preceding year mostly due to higher acquisition costs in the parent company (see [→ Section 7.7.2] for more details) and in Triglav Osiguranje, Zagreb. The costs of goods sold were down 41% to EUR 10.3 million, primarily as a result of the sale of the stake of Slovenijales Trgovina. An 18% decrease of depreciation costs amounting to EUR 13.0 million was mainly a consequence of the sale of the stake of the Avrigo Group. With 47.9%, labour costs continued to account for the largest portion of total expenses. They dropped by 2% to EUR 140.5 million. Costs of services provided by natural persons other than sole proprietors were significantly lower (as much as 52%) and equalled EUR 1.1 million. This decrease is mainly a result of lower costs related to student work and costs related to work contracts in the parent company. Other operating expenses decreased by 10%, reaching EUR 86.0 million. Among other operating expenses, the highest decrease was

seen in costs of material and energy, costs of transport and communications services, costs of insurance premiums and other costs of services.

In total gross operating expenses broken down by functional group, an increase was seen in acquisition costs, accounting for 59.5% (vs. 58.8% in 2015) and in other operating expenses representing 28.5% (vs. 28.3% in 2015). Claim handling costs went down, representing a 10.9% share of total expenses (vs. 11.3% in 2015) and asset management costs, with a share of 1.1% (vs. 1.5% in 2015).

Gross operating expenses of the Triglav Group by nature

Operating expenses by nature	Gross operating expenses			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Acquisition cost (fees and charges)	42,724,005	40,864,484	39,525,723	105	103	14.5%
Costs of goods sold	10,273,611	17,384,659	17,373,878	59	100	3.5%
Depreciation of operating assets	13,015,136	15,878,927	18,102,742	82	88	4.4%
Labour costs	140,524,957	142,787,896	141,877,561	98	101	47.9%
- wages and salaries	97,854,815	100,917,730	100,845,025	97	100	33.3%
- social securities and pension insurance costs	22,618,667	22,909,828	22,739,874	99	101	7.7%
- other labour costs	20,051,475	18,960,338	18,292,662	106	104	6.8%
Costs of services provided by natural persons other than SPs together with pertaining taxes	1,141,593	2,399,810	2,540,639	48	94	0.4%
Other operating expenses	85,963,556	95,340,130	91,161,982	90	105	29.3%
- costs of entertainment, advertising, trade shows	18,359,495	16,797,446	14,431,286	109	116	6.3%
- costs of material and energy	8,398,156	12,850,806	13,522,244	65	95	2.9%
- maintenance costs	13,351,914	12,897,999	12,063,080	104	107	4.5%
- reimbursement of labour-related costs	5,397,007	5,587,929	5,276,433	97	106	1.8%
- costs of intellectual and personal services	5,091,816	6,132,729	5,065,774	83	121	1.7%
- non-income related costs, excluding insurance	3,273,907	3,436,861	4,443,993	95	77	1.1%
- costs of transport and communication services	5,018,286	6,737,430	6,673,403	74	101	1.7%
- costs of insurance premiums	1,764,757	2,552,013	2,458,350	69	104	0.6%
- payment transaction costs and banking services	6,998,942	7,318,672	6,502,926	96	113	2.4%
- rents	7,086,596	7,896,577	7,153,485	90	110	2.4%
- costs of services of professional training	783,577	774,024	923,632	101	84	0.3%
- other costs of services	10,438,107	12,343,117	12,596,778	85	98	3.6%
- long-term employee benefits	996	14,527	50,598	7	29	0.0%
Total	293,642,858	314,655,906	310,582,525	93	101	100.0%
Consolidation eliminations	-16,584,818	-17,041,530	-14,648,828	97	116	
Total consolidated	277,058,040	297,614,376	295,933,697	93	101	

7.7.2 Zavarovalnica Triglav

Gross operating expenses amounted to EUR 164.5 million, presenting an increase of 2% compared to the previous year. The operating expenses growth was 1.1 index points higher than the growth of gross written premiums. Operating expenses accounted for 27.7% of gross written premiums, representing an increase of 0.2 percentage point compared to 2015.

Acquisition costs (fees and charges) totalled EUR 24.2 million and increased by 7% over the preceding year. They rose mainly as a result of higher underwriting commissions, fronting operations and higher fees and commissions of insurance brokers, due to increased sales volume through these sales channels. Increased acquisition costs were caused by higher acquisition costs in indirect insurance operations abroad (Group

With 56.7%,
labour costs accounted
for the largest proportion
of total expenses of
Zavarovalnica Triglav.

subsidiaries) due to premium growth. Depreciation costs of EUR 8.2 million were slightly higher by 1%, mainly as a result of activation of IT software and higher depreciation due to acquisition of a commercial building in Ljubljana.

With 56.7%, labour costs accounted for the largest portion of total expenses. They amounted to EUR 93.2 million, increasing by 5% compared to 2015 mainly as a result of the planned higher pay for annual leave in accordance with the applicable collective agreement. Costs of services provided by natural persons other than sole proprietors were significantly lower. They dropped by 87% to EUR 201 thousand, mainly due to lower costs related to student work and costs related to work contracts. Other operating expenses were down. They amounted to EUR 38.7 million or 3% less compared to the previous year. Among other operating expenses, the highest decrease was seen in costs of entertainment, advertising and trade shows, intellectual and personal services and costs insurance premiums.

Gross operating expenses in non-life insurance increased by 2% to EUR 131.0 million. This accounted for 31.0% of total gross written premium, which was 0.1 percentage point less than the year before. Gross operating expenses in life insurance were up by 2%, totalling EUR 33.5 million. Their share in gross written premiums accounted for 19.7% (vs. 18.8% in 2015).

In total gross operating expenses broken down by functional group, acquisition costs accounted for 62.3%, representing an increase of 0.5 percentage point. The share of other operating expenses increased from 23.8% to 24.1% compared to 2015, whilst shares of claim handling costs and asset management costs fell. Claim handling costs accounted for 12.3% (12.5% in 2015) and asset management costs for 1.3% (1.9% in 2015).

Gross operating expenses of Zavarovalnica Triglav by nature in 2016

Operating expenses by nature	Gross operating expenses			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Acquisition costs (fees and charges)	24,173,928	22,549,933	21,781,324	107	104	14.7%
Depreciation of operating assets	8,212,728	8,147,107	9,848,554	101	83	5.0%
Labour costs	93,223,603	88,671,593	91,702,311	105	97	56.7%
- wages and salaries	66,756,303	64,844,070	67,330,797	103	96	40.6%
- social securities and pension insurance costs	11,289,521	10,746,275	10,995,938	105	98	6.9%
- other labour costs	15,177,779	13,081,249	13,375,576	116	98	9.2%
Costs of services provided by natural persons other than SPs together with pertaining taxes	201,268	1,597,139	1,756,810	13	91	0.1%
Other operating expenses	38,735,692	40,000,394	37,603,919	97	106	23.5%
- costs of entertainment, advertising, trade shows	8,516,499	9,802,785	8,287,612	87	118	5.2%
- costs of material and energy	3,595,580	3,886,577	4,320,485	93	90	2.2%
- maintenance costs	8,833,689	8,268,625	7,456,486	107	111	5.4%
- reimbursement of labour-related costs	3,189,444	3,196,121	3,380,605	100	95	1.9%
- costs of intellectual and personal services	1,928,839	2,480,439	1,927,551	78	129	1.2%
- non-income-related costs, excluding insurance	1,599,091	1,759,763	1,655,259	91	106	1.0%
- costs of transport and communication services	2,869,566	3,000,063	2,839,107	96	106	1.7%
- costs of insurance premiums	924,170	1,234,844	1,277,350	75	97	0.6%
- payment transaction costs and banking services	1,751,264	1,734,967	1,796,461	101	97	1.1%
- rents	2,585,576	2,378,308	2,355,084	109	101	1.6%
- costs of services of professional training	447,540	377,539	464,495	119	81	0.3%
- other costs of services	2,494,436	1,880,362	1,843,424	133	102	1.5%
Total	164,547,219	160,966,165	162,692,918	102	99	100.0%

Gross operating expenses of Zavarovalnica Triglav by insurance class in 2016

Insurance class	Gross operating expenses			Index		Structure
	2016	2015	2014	2016/2015	2015/2014	2016
Accident insurance	9,538,828	9,740,942	9,994,928	98	97	5.8%
Health insurance	102,055	0	0	0	0	0.1%
Comprehensive car insurance	26,384,762	26,187,256	26,555,561	101	99	16.0%
Real property insurance	42,486,574	40,355,478	40,899,259	105	99	25.8%
Motor liability insurance	26,224,681	26,663,654	27,556,030	98	97	15.9%
General liability insurance	10,653,014	9,660,560	9,507,686	110	102	6.5%
Credit insurance	5,750,339	5,526,264	5,184,989	104	107	3.5%
Other non-life insurance	9,879,847	9,917,996	8,782,582	100	113	6.0%
Non-life insurance	131,020,099	128,052,148	128,481,037	102	100	79.6%
Life insurance	17,198,224	17,489,329	17,496,849	98	100	10.5%
Unit-linked life insurance	14,335,541	13,414,318	14,752,209	107	91	8.7%
Capital redemption insurance	1,993,355	2,010,371	1,962,824	99	102	1.2%
Life insurance	33,527,120	32,914,018	34,211,881	102	96	20.4%
Total	164,547,219	160,966,165	162,692,918	102	99	100.0%

7.8 Risk equalisation

7.8.1 The Triglav Group

The Triglav Group equalised 92% of the risks within its own equalisation capacities. The Group was able to equalise risks that exceeded its own equalisation capacities by reinsurance and, to a lesser extent, by co-insurance arrangements. Within the Company's equalisation capacities, losses were covered by the current inflow of technical premium by insurance class and allocated insurance contract provisions.

Insurance technical provisions

Gross insurance technical provisions are the basis for balanced operations and ensure the long-term safety of insured persons. As at the reporting date, the Group allocated EUR 2,660.8 million to gross insurance technical provisions, which in total represented an increase of 2% compared to the preceding year. In **life** (index 103) and **health insurance** (index 108), the amount of gross insurance technical provisions increased, whilst in **non-life** (index 100) it remained at a level approximately equal to the 2015 year-end.

Provisions by type as at 31 December 2016 compared to the same day of the preceding year:

- **Gross provisions for unearned premium** were 5% higher and amounted to EUR 263.6 million. Unearned premium from non-life insurance amounted to EUR 260.9 million (index 104), unearned premium from life insurance totalled EUR 450 thousand (index 102) and unearned premium from health insurance reached EUR 2.3 million (index 119).

- **Gross claims provisions** were down 1%, reaching EUR 635.2 million. Claims provisions from non-life insurance totalled EUR 607.2 million (index 99), those from the life-insurance segment stood at EUR 18.9 million (index 94) and those from health insurance amounted to EUR 9.1 million (index 97).
- **Mathematical provisions** were up 3% and reached EUR 1,731.2 million. Of the total amount of mathematical provisions, EUR 788.4 million originated in the guarantee fund backing **life insurance** and EUR 457.7 million in the guarantee fund backing **unit-linked life insurance** and EUR 449.7 million in the guarantee fund backing **SVPI**, and EUR 35.4 million in the guarantee fund backing **SVPI during the annuity payout period**. Mathematical provisions were up mostly due to higher mathematical provisions in the parent company (see [→ Section 7.8.2] for more details) and in Skupna pokojninska družba.
- **Provisions for bonuses and discounts** increased by 10% to EUR 19.1 million.
- As at the reporting date, **other insurance technical provisions** amounted to EUR 11.6 million and were at a level approximately equal to the 2015 year-end (index 100). They recorded a 30% growth in the parent company (see [→ Section 7.8.2] for more details), whilst Triglav Osiguranje, Zagreb experienced a high decrease due to lower claims ratio in certain insurance types and to a changed methodology for calculating provisions.

The Triglav Group allocated EUR 2,660.8 million to gross insurance technical provisions or 2% more than the year before.

Gross insurance technical provisions of the Triglav Group as at 31 December 2016

	Gross insurance technical provisions			Index	
	31 December 2016	31 December 2015	31 December 2014	2016/2015	2015/2014
Unearned premiums	263,639,620	252,057,956	245,995,733	105	102
Mathematical provisions	1,731,221,698	1,676,784,638	1,412,972,099	103	119
Claims provisions	635,240,895	642,687,051	648,827,459	99	99
Provisions for bonuses and discounts	19,105,924	17,382,035	15,845,556	110	110
Other insurance technical provisions	11,580,177	11,530,442	10,014,327	100	115
Total	2,660,788,314	2,600,442,122	2,333,655,174	102	111

Reinsurance

The Triglav Group operates on the global reinsurance market via Pozavarovalnica Triglav Re. In 2016, optimum coverage terms and conditions were achieved in all reinsurance and co-insurance contracts.

The Group allocated EUR 77.3 million of reinsurance premiums to external equalisation, which was 2% more than at the 2015 year-end. Reinsurance premium accounted for 8.3% of total gross written premium. The change in unearned premium related to reinsurance portion totalled EUR 1.5 million (index 45). The reinsurers' share in gross claims paid amounted to EUR 21.3 million (index 88). The change in gross claims provisions for reinsurers' share in unearned premiums equalled EUR 5.6 million (2015: EUR –9.0 million). The Group also received EUR 139 thousand in reinsurance commissions, representing a 93% decrease compared to 2015. The reinsurance result was negative and amounted to EUR –48.8 million (2015: EUR –55.0 million).

7.8.2 Zavarovalnica Triglav

Insurance technical provisions

As at the reporting date, Zavarovalnica Triglav allocated EUR 2,076.3 million to gross insurance technical provisions, which represented a 1% increase over one year earlier. In **non-life insurance**, the amount of gross insurance technical provisions was down 1%, whereas in **life insurance** it grew by 2% compared to 2015.

Insurance technical provisions by type as at 31 December 2016 compared to the same day of 2015:

- **Gross provisions for unearned premiums** went up by 4% to EUR 188.5 million. Unearned premiums from non-life insurance totalled EUR 188.1 million (index 104) and those from life insurance EUR 420 thousand (index 101), both having increased compared to the year before.

- **Gross claims provisions** decreased by 3% and amounted to EUR 471.2 million. Claims provisions from non-life insurance were down by 3%, reaching EUR 453.4 million, those from the life-insurance segment were 7% lower and amounted to EUR 17.9 million. In addition to the recorded gross claims provisions in the amount of EUR 175.1 million (index 106) and claims provisions for co-insurance of EUR 1.3 million, gross claims provisions of EUR 261.2 million were formed for incurred but not reported claims. The provision for incurred but not reported claims are an actuarial calculation, which is based on a sample of claims paid in past periods. The amount of claims paid has been declining for several years, resulting in the decrease in the level of these provisions. Provisions for claim handling increased by 1% and totalled EUR 43.9 million, while provisions for expected subrogations reduced the gross claims provisions by EUR 10.3 million (index 98).

- **Mathematical provisions** were up 2% and reached EUR 1,390.4 million. Of the total amount of mathematical provisions, EUR 731.8 million originated from the **guarantee fund backing life insurance**, EUR 431.1 million from the **guarantee fund backing unit-linked life insurance**, EUR 192.1 million from the **guarantee fund backing SVPI**, and EUR 35.4 million from the **guarantee fund backing SVPI during the annuity payout period**. The movement of the mathematical provisions reflected the dynamics of premium payments and benefit payouts. There were no significant changes compared to the preceding year. The only two major changes were a lower revaluation surplus (shadow accounting) by EUR 6.2 million and a reduced internally set maximum interest rate, used for the valuation of life insurance liabilities. Mathematical provisions originated from the guarantee fund backing life insurance grew by EUR 4.6 million as a result of the reduced internally set maximum interest rate.

- **Provisions for bonuses and discounts** went up 10%, amounting to EUR 18.5 million.
- **Other insurance technical provisions** of EUR 7.7 million increased by 30% over the 2015 year-end. The main reason for the increase were higher provisions for the guarantee fund backing supplemental voluntary pension insurance during the annuity payout period in accordance with the liability adequacy test (LAT) calculation.

Gross insurance technical provisions of Zavarovalnica Triglav as at 31 December 2016

	Gross insurance technical provisions			Index	
	31 December 2016	31 December 2015	31 December 2014	2016/2015	2015/2014
Unearned premiums	188,487,876	180,558,991	182,902,536	104	99
Mathematical provisions	1,390,394,245	1,364,323,055	1,347,810,649	102	101
Claims provisions	471,240,774	486,247,722	508,999,132	97	96
Provisions for bonuses and discounts	18,495,379	16,817,528	15,380,257	110	109
Other insurance technical provisions	7,684,844	5,916,991	4,950,270	130	120
Total	2,076,303,118	2,053,864,286	2,060,042,844	101	100

Reinsurance

In 2016, Zavarovalnica Triglav earmarked EUR 78.5 million of reinsurance and coinsurance premiums to external equalisation, which was 8% more than one year earlier. A reinsurers' and co-insurers' share accounted for 13.2% of total gross written premium, up by 0.9 percentage point more over 2015. A reinsurers' share of gross claims settled of EUR 20.9 million was received from reinsurance and coinsurance or 18% less compared to the 2015 year-end. The Company also received EUR 15.1 million in reinsurance commissions, representing an increase of 19% over 2015.

7.9 Structure of financial investments

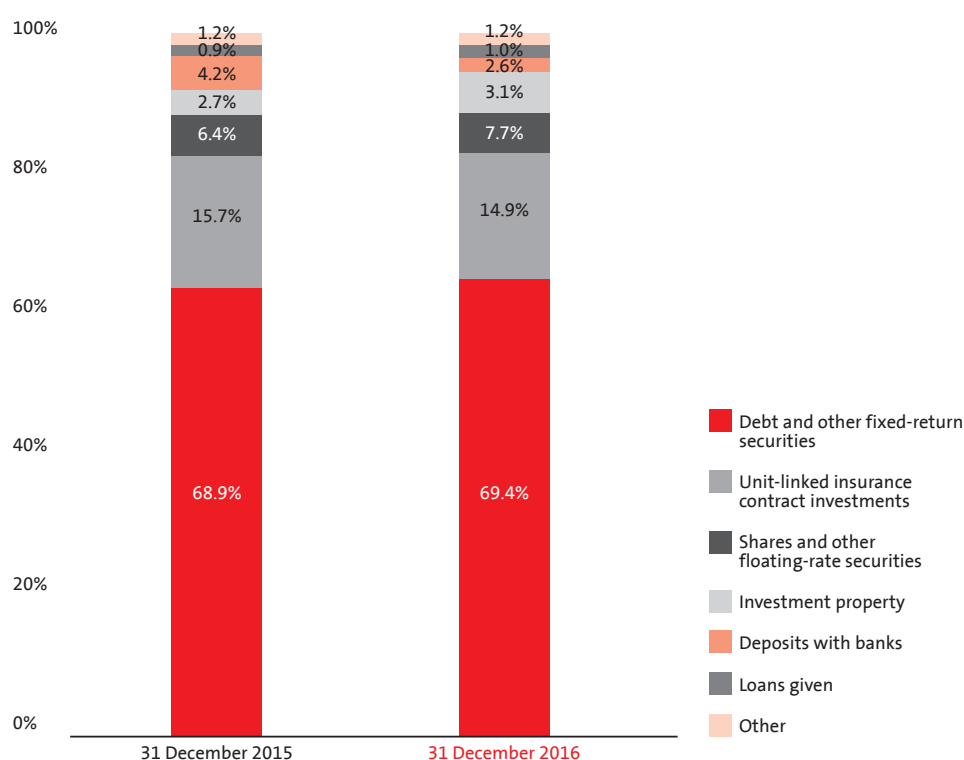
7.9.1 The Triglav Group

Financial assets, investments in associates and investment property of the Triglav Group went up by 4% over 2015, amounting to EUR 3,077.0 million. Their share in total assets rose by 1.3 percentage points to 86.1%.

Financial investments of the Triglav Group as at 31 December 2016

	Financial investments		Index	Structure
	31 December 2016	31 December 2015	2016/2015	31 December 2016
Investment property	95,842,720	79,475,283	121	3.1%
Shares in associates	6,826,400	6,939,700	98	0.2%
Shares and other floating-rate securities	238,449,950	189,095,441	126	7.7%
Debt and other fixed-return securities	2,134,902,600	2,039,989,397	105	69.4%
Loans given	29,824,585	26,760,736	111	1.0%
Deposits with banks	81,237,845	122,963,931	66	2.6%
Other financial investments	24,733,673	25,966,525	95	0.8%
Financial investments of reinsurance companies in reinsurance contracts with cedents	5,171,806	3,926,832	132	0.2%
Unit-linked insurance contract investments	459,982,822	464,733,921	99	14.9%
Total	3,076,972,401	2,959,851,766	104	100.0%

Structure of financial investments of the Triglav Group as at 31 December 2016 and 31 December 2015



In 2016, the Group continued adapting the individual shares of investment grades accordingly, thus consistently implementing its strategy of maintaining a high credit rating of its investments. The largest, 69.4% share of total financial investments of the Group was maintained by **debt and other fixed-return securities**, which grew by 0.5 percentage point. As at the reporting date, they totalled EUR 2,134.9 million, which represented a 5% increase compared to the 2015 year-end.

Unit-linked insurance contract investments were 1% lower. As at the reporting date, they amounted to EUR 460.0 million, accounting for 14.9% of total investments.

In line with the investment policy, **investments in shares and other floating rate securities** went up by 26%, reaching EUR 238.4 million. Their share in total financial investments climbed by 1.4 percentage points to 7.7%.

Investment property of EUR 95.8 million increased by 21% compared to the 2015 year-end due to a transfer of real property from property, plant and equipment, accounting for 3.1% of total financial investments.

In total financial assets, **deposits with banks** decreased by 34% to EUR 81.2 million. They accounted for 2.6% of total investments as a result of extremely low deposit interest rates in the banking system, resulting in a different liquidity management.

Due to additional loans outside the Triglav Group, **loans given** recorded an 11% increase compared to the preceding year. At EUR 29.8 million, loans given accounted for 1.0% of total financial investments. **Other financial investments** stood at EUR 24.7 million, representing a 0.8% share of total financial investments.

Financial investments in associates were 2% lower compared to the 2015 year-end (a 0.2% share), amounting to EUR 6.8 million. **Financial investments of reinsurance companies in reinsurance contracts with cedents** grew by 32% to EUR 5.2 million, accounting for a 0.2% of total financial investments.

By issuer sector, government bonds, representing 50.1%, continued to account for the bulk of total debt securities. Compared to the 2015 year-end, they dropped by 8%, whilst their share in total financial assets was down 7.1 percentage points. This decrease was predominantly the result of applying the new Solvency II methodology and/or consequently the requirements regarding the classification of securities by sector and analytical treatment of state guarantees (reclassification from government to financial and corporate debt securities). In total debt securities, the shares of corporate bonds (23.6%) and financial bonds (25.5%) increased due to the above-mentioned application of different methodology. Structured bonds decreased by 0.3 percentage point as did their value (index 73).

Debt securities of the Triglav Group by issuer sector in 2016 and 2015

Issuer sector	Debt securities		Index 2016/2015	Structure	
	31 December 2016	31 December 2015		31 December 2016	31 December 2015
Corporate	504,467,444	470,577,303	107	23.6%	23.1%
Financial	543,495,982	377,058,528	144	25.5%	18.5%
Government	1,068,719,391	1,167,256,349	92	50.1%	57.2%
Structured	18,219,783	25,097,218	73	0.9%	1.2%
Total	2,134,902,600	2,039,989,397	105	100.0%	100.0%

Note: Unit-linked life insurance contract investments data excluded.

In total debt securities **by issuer credit rating**, a lower exposure to bonds with the highest credit rating of AAA continued primarily due to downgrading the Finland's credit rating to AA. An upgrade of the sovereign credit rating of Slovenia in Q3 2016 from BBB to A caused a change in the

structure of debt securities in the A-rating grade (index 221). A higher share of bonds in credit rating grades below the BBB-rating (representing an 18.4% share), was mainly attributable to new purchases of bonds.

Debt securities of the Triglav Group by issuer credit rating in 2016 and 2015

Credit rating	Debt securities		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
AAA	211,893,186	270,712,813	78	9.9%	13.3%
AA	126,423,500	79,607,769	159	5.9%	3.9%
A	576,015,797	260,515,926	221	27.0%	12.8%
BBB	741,012,325	997,078,824	74	34.7%	48.9%
Below BBB	392,749,250	338,017,756	116	18.4%	16.6%
Not rated	86,808,541	94,056,308	92	4.1%	4.6%
Total	2,134,902,600	2,039,989,397	105	100.0%	100.0%

Note: Unit-linked life insurance contract investments data excluded.

Changes in exposure of **debt securities to individual countries** were a result of price fluctuations and active trading. In 2016, most purchases were made in investments of French, Spanish and Dutch issuers. The lower exposure to Slovenia was mainly because the debt securities fell due in the last quarter.

Debt securities of the Triglav Group by issuer country in 2016 and 2015

Country of issuer	Debt securities		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
Slovenia	443,032,245	515,076,149	86	20.8%	25.2%
Germany	160,146,983	164,673,003	97	7.5%	8.1%
Netherlands	171,442,648	158,994,228	108	8.0%	7.8%
Spain	165,634,669	151,086,175	110	7.8%	7.4%
Italy	121,225,847	137,039,034	88	5.7%	6.7%
France	136,772,348	105,750,984	129	6.4%	5.2%
Other	936,647,861	807,369,824	116	43.9%	39.6%
Total	2,134,902,600	2,039,989,397	105	100.0%	100.0%

Note: Unit-linked life insurance contract investments data excluded.

In total financial investments, the portion of **shares** (shares and other floating rate securities and investments in subsidiaries and associates) climbed by 25%. Growth predominantly resulted from the purchases of units or shares of bond and money market funds on developed markets. Investments in funds accounted for 72% of total investments in shares. In total investments in funds, approximately 50% of investments is represented by investments in bond and money market funds.

Equity investments of the Triglav Group in 2016 and 2015

Equity investment type	Equity investments		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
Shares	68,892,275	70,164,963	98	28.1%	35.8%
Equity funds	89,046,478	107,757,536	83	36.3%	55.0%
Bond funds	39,428,528	5,014,388	786	16.1%	2.6%
Money market funds	42,053,747	2,251,873	1,868	17.1%	1.1%
Other funds	5,855,322	10,846,381	54	2.4%	5.5%
Total	245,276,350	196,035,141	125	100.0%	100.0%

Equity investments of the Triglav Group by geographic area in 2016 and 2015

Geographic area	Equity investments		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
Slovenia	59,816,111	67,747,852	88	24.4%	34.6%
Developed markets	160,652,378	99,929,844	161	65.5%	51.0%
Developing markets	15,428,349	19,508,920	79	6.3%	10.0%
Balkans	9,379,512	8,848,525	106	3.8%	4.5%
Total	245,276,350	196,035,141	125	100.0%	100.0%

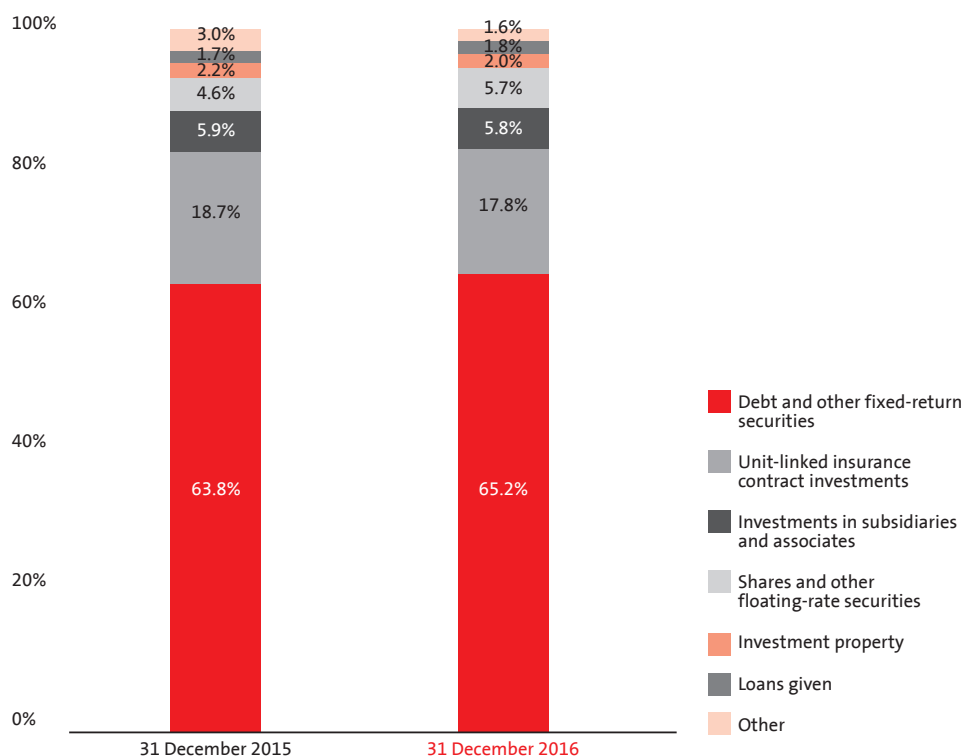
7.9.2 Zavarovalnica Triglav

Financial assets, investments in subsidiaries and associates and investment property as at the reporting date stood at EUR 2,436.3 million, which was 2% more over the preceding year. Their share in total assets went down by 0.1 percentage point and reached 88.9%.

Financial investments of Zavarovalnica Triglav as at 31 December 2016 and 31 December 2015

	Financial investments		Index	Structure
	31 December 2016	31 December 2015	2016/2015	31 December 2016
Investment property	49,611,417	52,870,808	94	2.0%
Investments in subsidiaries and associates	140,135,485	141,948,911	99	5.8%
Shares and other floating-rate securities	139,671,350	110,176,657	127	5.7%
Debt and other fixed-return securities	1,589,007,928	1,525,459,475	104	65.2%
Loans given	43,651,675	40,038,012	109	1.8%
Deposits with banks	37,045,982	66,846,988	55	1.5%
Other financial investments	1,700,237	2,620,871	65	0.1%
Derivative financial instruments	1,423,429	2,708,914	53	0.1%
Unit-linked insurance contract investments	434,043,269	446,589,561	97	17.8%
Total	2,436,290,771	2,389,260,196	102	100.0%

Structure of financial investments of Zavarovalnica Triglav as at 31 December 2016 and 31 December 2015



In line with the investment policy, the investment portfolio structure of the Company changed in the reporting period. The largest, 65.2% share of total financial investments of the Company was maintained by **debt and other fixed-return securities**. At the 2016 year-end, they reached EUR 1,589.0 million, having increased by 4% over the preceding year.

Unit-linked insurance contract investments dropped by 3% to EUR 434.0 million as at the reporting date, accounting for 17.8% of total financial investments.

Compared to 31 December 2015, **financial investments in subsidiaries and associates** decreased by 1% to EUR 140.1 million, representing 5.8% of total financial investments. The decrease was attributable to the changes within the Triglav Group (see [→ Section 9.2.2] for more details).

In line with the investment policy, **investments in shares and other floating rate securities** were 27% higher, reaching EUR 139.7 million. Their share in total financial investments climbed by 1.1 percentage point to 5.7%.

At EUR 49.6 million, **investment property** decreased by 6% due to the successful sale of certain real properties in the reporting period which was in line with the real property management

policy. They accounted for 2.0% of total financial investments.

Compared to the preceding year, **loans given** were 9% higher due to the additional loans within and outside the Triglav Group. At EUR 43.7 million, loans given accounted for 1.8% of total financial investments.

Deposits with banks decreased by 45% to EUR 37.0 million, representing 1.5% of total financial investments (31 December 2015: 2.8%). This decrease was as a result of extremely low deposit interest rates in the banking system, resulting in a different liquidity management.

Other financial investments stood at EUR 1.7 million (index 65), **derivatives** in the amount of EUR 1.4 million (index 53) represented only a 0.1% share of total financial investments.

By issuer sector, government bonds, representing 45.5%, continued to account for the bulk of total debt securities. They were down 15% and accounted for a share of 10.1 percentage points. This reduction is foremost a result of the above-mentioned application of different reclassification methodology. In total debt and other fixed-return securities the shares of corporate bonds (23.4%) and financial bonds (29.9%) increased.

Debt securities of Zavarovalnica Triglav by issuer sector in 2016 and 2015

Issuer sector	Debt securities		Index	Structure	
	31 December 2016	31 December 2015		31 December 2016	31 December 2015
Corporate	372,586,888	330,059,084	113	23.4%	21.6%
Financial	474,830,118	322,557,140	147	29.9%	21.1%
Government	723,371,452	847,746,971	85	45.5%	55.6%
Structured	18,219,471	25,096,280	73	1.1%	1.6%
Total	1,589,007,928	1,525,459,475	104	100.0%	100.0%

Note: Unit-linked life insurance contract investments data excluded.

In total debt securities **by issuer credit rating**, a lower exposure to bonds with the highest credit rating of AAA continued due to downgrading the Finland's credit rating to AA, for the same reason as that of the Group. The latter is the cause of more than two thirds of the changes within the AAA and AA grades. An upgrade of the sovereign credit rating of Slovenia in Q3 2016 from

BBB to A caused a change in the structure of debt securities in the A-rating grade (index 201). An increase in exposure was seen in bonds in credit rating grades below the BBB-rating (index 118), which was primarily the result of new purchases of such bonds.

Debt securities of Zavarovalnica Triglav by issuer credit rating in 2016 and 2015

Credit rating	Debt securities		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
AAA	174,284,679	228,870,548	76	11.0%	15.0%
AA	116,689,806	74,863,752	156	7.3%	4.9%
A	465,072,571	231,117,017	201	29.3%	15.2%
BBB	636,408,897	810,101,227	79	40.1%	53.1%
Below BBB	149,074,194	126,109,677	118	9.4%	8.3%
Not rated	47,477,781	54,397,254	87	3.0%	3.6%
Total	1,589,007,928	1,525,459,475	104	100.0%	100.0%

Note: Unit-linked life insurance contract investments data excluded.

Changes in the exposure of **debt securities to individual countries** are a result of price fluctuations and active trading. In the reporting period, most purchases were made in investments of French, Dutch and Spanish issuers. The lower exposure to Slovenia was mainly because the debt securities fell due in the last quarter.

Debt securities of Zavarovalnica Triglav by issuer country in 2016 and 2015

Country of issuer	Debt securities		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
Slovenia	322,697,290	356,141,605	91	20.3%	23.3%
Spain	155,739,338	142,750,925	109	9.8%	9.4%
Germany	133,583,592	137,581,785	97	8.4%	9.0%
Netherlands	129,887,704	114,412,956	114	8.2%	7.5%
France	125,139,685	90,931,009	138	7.9%	6.0%
Italy	100,416,716	121,425,167	83	6.3%	8.0%
Other	621,543,604	562,216,028	111	39.1%	36.9%
Total	1,589,007,928	1,525,459,475	104	100.0%	100.0%

Note: Unit-linked life insurance contract investments data excluded.

In total financial investments, the portion of **shares** (shares and other floating rate securities and investments in associates) was up 11% which resulted from the purchases of units or shares of bond and money market funds on developed markets.

Equity investments of Zavarovalnica Triglav by equity investment type in 2016 and 2015

Equity investment type	Equity investments		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
Shares	193,754,358	197,672,215	98	69.2%	78.4%
Equity funds	34,575,704	40,955,264	84	12.4%	16.2%
Bond funds	20,789,750	4,036,591	515	7.4%	1.6%
Money market funds	25,161,900	0	0	9.0%	0.0%
Other funds	5,525,121	9,461,497	58	2.0%	3.8%
Total	279,806,834	252,125,568	111	100.0%	100.0%

Equity investments of Zavarovalnica Triglav by geographic area in 2016 and 2015

Geographic area	Equity investments		Index	Structure	
	31 December 2016	31 December 2015	2016/2015	31 December 2016	31 December 2015
Slovenia	189,182,661	197,430,305	96	67.6%	78.3%
Developed markets	77,573,080	42,075,285	184	27.7%	16.7%
Developing markets	8,970,832	9,106,584	99	3.2%	3.6%
Balkans	4,080,262	3,513,394	116	1.5%	1.4%
Total	279,806,834	252,125,568	111	100.0%	100.0%

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.
The Triglav Group	92.9%	92.8%	0.1 p.p.

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 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.

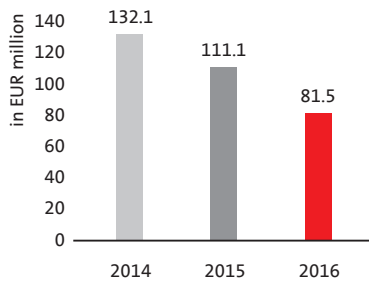
8.1.2 Income and expenses from financial assets

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
Net premium income	849,594,001	839,167,224	101
- 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
Income from financial assets	146,017,485	300,908,574	49
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
Other income from insurance operations	5,392,172	7,430,958	73
- fees and commission income	252,793	2,494,636	10
- other income from insurance operations	5,139,379	4,936,322	104
Other income	53,537,175	77,260,256	69
Net claims incurred	577,102,418	570,343,294	101
- 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
Change in other insurance technical provisions (excluding ULI)	47,211,325	60,340,392	78
Change in insurance technical provisions for unit-linked insurance contracts	776,648	-1,882,145	
Expenses for bonuses and discounts	11,331,630	10,202,959	111
Operating expenses	208,675,708	201,796,133	103
- acquisition costs	141,003,013	136,158,419	104
- other operating costs	67,672,695	65,637,714	103
Expenses from financial assets and liabilities	42,533,879	180,367,256	24
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
Other insurance expenses	17,038,345	18,212,146	94
Other expenses	54,732,790	82,909,300	66
Profit/loss before tax	95,138,090	102,477,677	93
Income tax expense	12,806,316	13,616,483	94
Net profit/loss for the accounting period	82,331,774	88,861,194	93
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

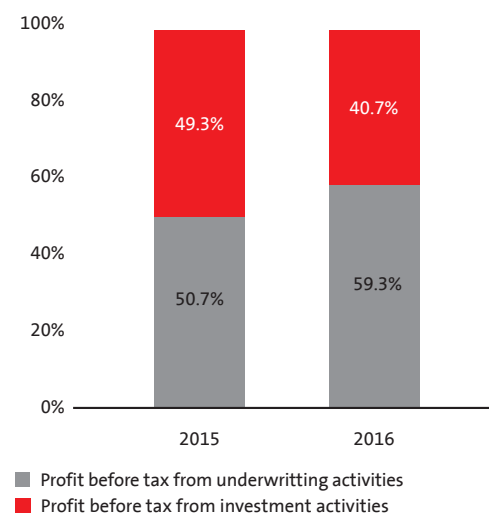
* Only the employees of the insurance companies and the reinsurance company within the Triglav Group were taken into account.

Profit before tax of the Triglav Group*

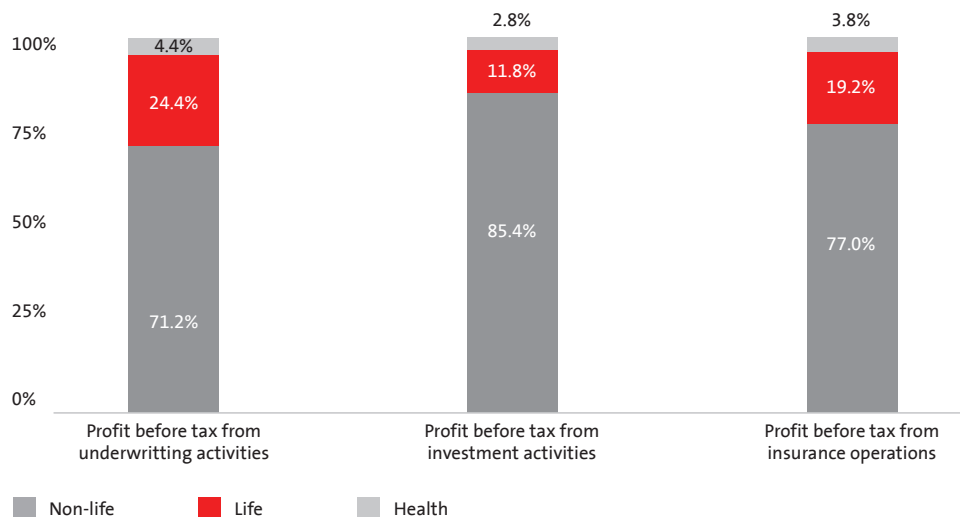
	2016				2015			
	Non-life	Life	Health	Total	Non-life	Life	Health	Total
Profit before tax from underwriting activities	38,843,797	13,286,716	2,427,265	54,557,778	32,997,840	13,165,312	3,575,415	49,738,567
Profit before tax from investment activities	32,046,207	4,426,697	1,039,953	37,512,857	36,062,925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

* 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.

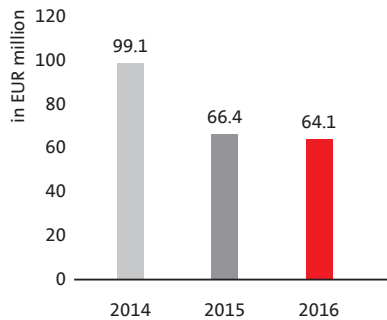
8.2.1 Premium income, claims incurred and operating expenses

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
Net premium income	509,765,204	517,040,236	99
- 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	
Income from financial assets	115,997,114	274,883,169	42
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
Other income from insurance operations	19,160,149	17,683,831	108
- fees and commission income	15,201,866	12,996,626	117
- other income from insurance operations	3,958,283	4,687,205	84
Other income	12,645,615	9,258,952	137
Net claims incurred	350,739,765	349,598,310	100
- 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
Change in other insurance technical provisions (excluding ULI)	28,758,525	39,257,225	73
Change in insurance technical provisions for unit-linked insurance contracts	-7,469,473	-4,032,292	
Expenses for bonuses and discounts	9,108,703	8,265,040	110
Operating expenses	142,229,598	137,861,969	103
- acquisition costs	102,587,533	99,608,988	103
- other operating costs	39,642,065	38,252,981	104
Expenses from financial assets and liabilities	30,163,394	200,067,115	15
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
Other insurance expenses	8,476,079	7,835,999	108
Other expenses	12,143,689	11,579,325	105
Profit/loss before tax	83,417,802	68,433,497	122
Income tax expense	8,084,200	9,927,679	81
Net profit/loss for the accounting period	75,333,602	58,505,818	129

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%

9 Financial Standing of The Triglav Group and Zavarovalnica Triglav

- As at the reporting date, balance sheet total was up 2% and total equity capital was 6% higher compared to the previous year.
- Financial assets of the Triglav Group rose by 4%.

9.1 The Triglav Group

9.1.1 Equity and liabilities

+6%
Growth in
total equity capital of
the Triglav Group

The **total equity capital** as at 31 December 2016 amounted to EUR 744.3 million or 6% more than the previous year. The share of equity in total liabilities increased by 0.6 percentage point; from 20.2% to 20.8%. Equity attributable to the controlling company was up 6% and stood at EUR 734.0 million, while non-controlling interest holders had EUR 10.4 million, having decreased by 7%. The share capital of EUR 73.7 million remained unchanged and was divided into 22,735,148 ordinary shares.

As a result of an increase in the value of available-for-sale financial assets, **fair value reserve** increased by 13% to EUR 87.7 million. **Share premium** decreased by 3%, amounting to EUR 53.5 million.

+14 %
Growth in
accumulated profit of
the Triglav Group

Over the reporting year, **reserves from profit** increased by 2% to EUR 305.5 million. They include legal and statutory reserves in the amount of EUR 20.6 million, contingency reserves of EUR 0.6 million and other reserves from profit of EUR 284.3 million, which increased by EUR 37.6 million. Credit risk equalisation reserves (equalisation reserves) of EUR 33.3 million were transferred to the net profit brought forward, which is described in greater detail in [→ Section 9.2.1].

Accumulated profit was 14% higher, amounting to EUR 217.4 million. In addition to net profit for the year, accumulated profit also includes EUR 173.2 million of net profit brought forward

(index 166). Due to the above-mentioned transfer of credit risk equalisation, the net profit brought forward rose by EUR 33.3 million and by EUR 85.8 million thanks to the transfer of net profit for the preceding year and by EUR 5.2 million thanks to a release of credit risk equalisation reserves and went down by EUR 56.8 million due to dividend payments. Net profit for the year disclosed in the balance sheet totalled EUR 44.2 million (index 52), which was EUR 37.7 million less than net profit disclosed in the income statement. The amount of EUR 37.7 million of net profit for the year was allocated to reserves from profit (see [→ Section 9.2.1] for more details).

Subordinated liabilities decreased by 10% due to higher volume of inter-company transactions, which were excluded in consolidation. They accounted for 0.5% of total liabilities or EUR 16.9 million in nominal terms.

On the liabilities side, **gross insurance technical provisions** rose by 2% to EUR 2,660.8 million. Their portion in total liabilities remained unchanged compared to 2015 and stood at 74.4%. Mathematical provisions increased by 3%, reaching EUR 1,731.2 million. Claims provisions decreased by 1%. In contrast, provisions for gross unearned premiums and other insurance technical provisions experienced an increase of 5% and 6% respectively. Insurance technical provisions of the Triglav Group are discussed in greater detail under [→ Section 7.8.1].

Other financial liabilities totalled EUR 5.3 million and recorded a high growth of 40%, primarily as the result of a short-term loan taken out by a subsidiary. Their share accounted for 0.1% of total liabilities.

Operating liabilities as at the 2016 year-end totalled EUR 42.0 million or 13% below the figure reported one year earlier. In total balance sheet liabilities, they account for a 1.2% share. Liabilities from direct insurance operations decreased by 4% to EUR 16.0 million, whilst liabilities from co-insurance and reinsurance operations went down by 18% and reached EUR 23.1 million. Current tax liabilities amounted to EUR 2.9 million or 23% less than in 2015.

Employee benefits of EUR 13.6 million grew by 11%, whilst **other provisions** totalled EUR 4.0 million (index 103). **Deferred tax liabilities** increased by 10% to EUR 25.4 million, which was mainly due to higher liabilities as the result of higher fair value reserve from financial investments and the tax rate increase (from 17% to 19%).

Other liabilities decreased by 6% and stood at EUR 62.6 million, representing a 1.8% share of total liabilities. As at the reporting date **liabilities arising from non-current assets held for sale** were not formed.

9.1.2 Assets

Financial assets as at the 2016 year-end totalled EUR 2,974.3 million and were 4% above the figure reported one year earlier. Their share accounted for 83.2% of total assets. **Unit-linked insurance assets** amounted to EUR 460.0 million and **financial investments** to EUR 2,514.3 million. The bulk of financial assets was accounted for by available-for-sale financial assets, which totalled EUR 1,738.0 million. In total financial investments, EUR 231.3 million by investments held to maturity, EUR 148.7 million was accounted for by deposits and loans, and EUR 396.2 million by investments recognised at fair value through profit/loss. The structure of financial assets is discussed in greater detail under [→ Section 7.9.1.]

Financial investments in associates of the Triglav Group amounted to EUR 6.8 million, having decreased by 2% (a 0.2% share in total assets), as a result of a negative result of one of the associates.

Investment property climbed by 21% and amounted to EUR 95.8 million, accounting for 2.7% of total assets. For details see [→ Section 7.9.1.].

Receivables totalled EUR 152.9 million, which was 8% less compared to the previous year. They accounted for 4.3% of total assets, of which receivables from direct insurance operations accounted for the bulk, totalling EUR 84.1 million (index 101). Receivables from co-insurance and reinsurance operations reached EUR 35.1 million (index 82), other receivables stood at EUR 32.9 million (index 82) and current tax receivables at EUR 890 thousand (index 296).

Insurance technical provisions transferred to reinsurance contracts stood at EUR 77.1 million, having increased by 12% compared to 31 December 2015. Assets from reinsurance contracts from claim provisions were 13% higher and totalled EUR 57.9 million, while those from unearned premiums were up by 8% and equalled EUR 19.2 million.

Property, plant and equipment totalled EUR 107.9 million (index 89), representing 3.0% of total assets. **Intangible assets** amounted to EUR 73.8 million (index 105), accounting for 2.1% of total assets.

Cash and cash equivalents increased by 37% or EUR 65.7 million nominally; whilst **other assets** totalled EUR 3.6 million (index 45). Compared to the 2015 year-end, **deferred tax receivables** fell by 1% to EUR 15.8 million.

Non-current assets held for sale equalled EUR 1.0 million due to the planned sale of specific land plots and buildings. As at the 2015 year-end, non-current assets held for sale amounted to EUR 34.4 million due to the planned sale of the Avrigo Group and the sale of the land plot to Ikea.

+4%
Higher financial assets
than the year before

Balance sheet of the Triglav Group as at 31 December 2016 – according to IFRS

	31 December 2016	31 December 2015	Index	2016 structure	2015 structure
ASSETS	3,574,885,423	3,493,456,800	102	100.0%	100.0%
Intangible assets	73,823,588	70,132,332	105	2.1%	2.0%
Property, plant and equipment	107,933,428	121,810,360	89	3.0%	3.5%
Deferred tax assets	15,793,114	15,993,688	99	0.4%	0.5%
Investment property	95,842,720	79,475,283	121	2.7%	2.3%
Investments in associates	6,826,400	6,939,700	98	0.2%	0.2%
Financial assets	2,974,303,281	2,873,436,783	104	83.2%	82.3%
Financial investments:	2,514,320,459	2,408,702,860	104	70.3%	68.9%
- loans and deposits	148,731,638	183,872,219	81	4.2%	5.3%
- held to maturity	231,342,393	242,406,400	95	6.5%	6.9%
- available for sale	1,738,043,072	1,607,681,638	108	48.6%	46.0%
- recognised at fair value through profit and loss	396,203,356	374,742,603	106	11.1%	10.7%
Unit-linked insurance assets	459,982,822	464,733,923	99	12.9%	13.3%
Reinsurers' share of insurance technical provisions	77,084,783	68,724,305	112	2.2%	2.0%
Receivables	152,921,089	166,443,733	92	4.3%	4.8%
- receivables from direct insurance operations	84,059,166	83,249,006	101	2.4%	2.4%
- receivables from reinsurance and co-insurance operations	35,099,850	42,823,668	82	1.0%	1.2%
- current tax receivables	890,276	301,273	296	0.0%	0.0%
- other receivables	32,871,797	40,069,786	82	0.9%	1.1%
Other assets	3,622,253	8,134,762	45	0.1%	0.2%
Cash and cash equivalents	65,714,474	47,928,768	137	1.8%	1.4%
Non-current assets held for sale	1,020,293	34,437,086	3	0.0%	1.0%
EQUITY AND LIABILITIES	3,574,885,423	3,493,456,800	102	100.0%	100.0%
Equity	744,349,747	704,044,499	106	20.8%	20.2%
Controlling interests	733,955,514	692,925,865	106	20.5%	19.8%
- share capital	73,701,392	73,701,392	100	2.1%	2.1%
- share premium	53,488,690	54,955,912	97	1.5%	1.6%
- reserves from profit	305,535,457	300,945,466	102	8.5%	8.6%
- treasury share reserves	364,680	452,880	81	0.0%	0.0%
- treasury shares	-364,680	-452,880	81	0.0%	0.0%
- fair value reserve	87,735,128	77,567,319	113	2.5%	2.2%
- net profit/loss brought forward	173,192,869	104,503,874	166	4.8%	3.0%
- net profit/loss for the year	44,216,477	85,802,552	52	1.2%	2.5%
- currency translation differences	-3,914,499	-4,510,483	87	-0.1%	-0.1%
- reserve of disposal group held for sale	0	-40,167	0	0.0%	0.0%
Non-controlling interests	10,394,233	11,118,634	93	0.3%	0.3%
Subordinated liabilities	16,869,102	18,752,252	90	0.5%	0.5%
Insurance technical provisions	2,203,105,224	2,143,395,211	103	61.6%	61.4%
- unearned premiums	263,639,620	252,057,956	105	7.4%	7.2%
- mathematical provisions	1,273,538,608	1,219,737,727	104	35.6%	34.9%
- claims provisions	635,240,895	642,687,051	99	17.8%	18.4%
- other insurance technical provisions	30,686,101	28,912,477	106	0.9%	0.8%
Insurance technical provisions for unit-linked insurance contracts	457,683,091	457,046,912	100	12.8%	13.1%
Employee benefits	13,550,264	12,225,131	111	0.4%	0.3%
Other provisions	3,971,217	3,854,844	103	0.1%	0.1%
Deferred tax liabilities	25,400,544	23,188,796	110	0.7%	0.7%
Other financial liabilities	5,288,693	3,784,282	140	0.1%	0.1%
Operating liabilities	42,028,195	48,388,725	87	1.2%	1.4%
- liabilities from direct insurance operations	16,020,020	16,617,928	96	0.4%	0.5%
- liabilities from reinsurance and co-insurance operations	23,129,245	28,053,630	82	0.6%	0.8%
- current tax liabilities	2,878,930	3,717,167	77	0.1%	0.1%
Other liabilities	62,639,346	66,341,975	94	1.8%	1.9%
Liabilities arising from long-term assets held for sale	0	12,434,173	0	0.0%	0.4%

Financial standing ratios of the Triglav Group

Financial standing ratios	2016	2015	2014
The portion of equity in total liabilities	20.8%	20.2%	21.0%
Average equity balance as % of gross written premium	77.4%	75.7%	72.0%
Return on equity	11.4%	12.8%	13.4%
Share of gross insurance technical provisions in total liabilities	74.4%	74.4%	71.2%
Average balance of gross insurance technical provisions as % of gross written premium	281.0%	268.4%	258.7%
Financial assets to total assets ratio	83.2%	82.3%	80.0%
Financial assets to gross insurance technical provisions ratio	111.8%	110.5%	112.2%

9.2 Zavarovalnica Triglav

The **total balance sheet** of Zavarovalnica Triglav as at the reporting date amounted to EUR 2,740.3 million or 2% more compared to 2015.

9.2.1 Equity and liabilities

+6%
Growth in
total equity capital

The **total equity capital** increased by 6% and reached EUR 563.4 million. The share of equity in the balance sheet total was up 0.8 percentage point, from 19.8% to 20.6%. The share capital of EUR 73.7 million remained unchanged and was divided into 22,735,148 ordinary registered no-par value shares.

As a result of an increase in the value of available-for-sale financial assets, fair value reserve increased by 16% to EUR 64.9 million. Share premium remained unchanged, amounting to EUR 53.4 million. Over the reporting year, reserves from profit grew by 2% to EUR 289.0 million. They include legal and statutory reserves in the amount of EUR 4.7 million and other reserves from profit of EUR 284.3 million, which increased by EUR 37.6 million. Credit risk equalisation reserves (equalisation reserves) of EUR 31.3 million were transferred to the net profit brought forward. As of 1 January 2016, the Insurance Act (ZZavar-1) entered into effect, which does not prescribe such reserves any longer.

As at 31 December 2016, accumulated profit for the year was EUR 82.4 million (index 127), including net profit for the year and net profit brought forward of EUR 44.7 million (index 620). Due to the above-mentioned transfer of credit risk equalisation reserves, the net profit brought forward rose by EUR 31.1 million and by EUR 57.8 million thanks to the transfer of net profit for the preceding year and by EUR 5.2 million thanks to a release of credit risk equalisation reserves, whereas it went down by EUR 56.8 million due

to dividend payments. Net profit for the year disclosed in the balance sheet totalled EUR 37.7 million, which was EUR 37.6 million less than net profit disclosed in the income statement, as the Company in compliance with the Companies Act used part of the net profit to form other reserves from profit. According to the Companies Act, the Management Board of Zavarovalnica Triglav may allocate net profit to other reserves, however only up to one half of the net profit remaining after statutory allocations.

Net subordinated liabilities amounted to EUR 21.1 million and remained at a level approximately equal to the 2015 year-end (index 100).

On the liabilities side, **gross insurance technical provisions** increased by 1% and stood at EUR 2,076.3 million. In the balance sheet total, their share decreased by 0.7 percentage point, from 76.5 to 75.8%. As at 31 December 2016, mathematical provisions amounted to EUR 1,390.4 million, which represented an increase of 2% over the end of the previous year. Provisions for gross unearned premiums and other insurance technical provisions increased by 4% and 15% respectively. Gross claims provisions decreased by 3%. Insurance technical provisions are discussed in greater detail in [→ Section 7.8.2]

Other financial liabilities, accounting for only 0.1% of total liabilities, which is the same as the 2015 figure and amounted to EUR 1.9 million (index 106).

Operating liabilities grew by 2% compared to the 2015 year-end, amounting to EUR 24.5 million and maintaining the same share of 0.9% of the total balance sheet liabilities. Liabilities from direct insurance operations climbed by 2% to EUR 11.2 million, whilst liabilities from co-insurance and reinsurance operations went up by 12% and reached EUR 11.5 million. Current tax liabilities equalled EUR 1.7 million (index 66).

+2%
Growth in
financial assets of
Zavarovalnica Triglav

Employee benefits increased by 15% and amounted to EUR 10.5 million, whilst other provisions amounted to EUR 690 thousand (index 181). Deferred tax liabilities increased by 13%, which was mainly due to higher liabilities as the result of higher fair value reserve from financial investments and the tax rate increase (from 17% to 19%), totalling EUR 7.1 million.

Other liabilities shrunk by 9% to EUR 34.9 million nominally and accounted for 1.3% of total liabilities.

9.2.2 Assets

Financial assets went up by 2% to EUR 2,246.5 million. Their share in total assets was up 0.3 percentage point, accounting for an 82.0%. **Unit-linked insurance assets** amounted to EUR 434.0 million and **financial investments** to EUR 1,812.5 million. In total financial investments, EUR 82.4 million was accounted for by deposits and loans, EUR 169.0 million by investments held to maturity, EUR 1,365.4 million by investments available for sale and EUR 195.7 million by investments recognised at fair value through profit/loss. The structure of financial assets is discussed in greater detail in [→ *Section 7.9.2*]

Financial investments in subsidiaries and associates fell by 1% and totalled EUR 140.1 million and represented a 5.1% share of total assets. Financial investments in subsidiaries were down 3% to EUR 130.6 million as a result of the sale of Avrigo. Financial investments in associates increased by 31% to EUR 9.5 million as a result of revaluation of Nama.

Investment property fell by 6% to EUR 49.6 million. Their share in total assets accounted for 1.8%, which was 0.2 percentage point less than in the previous year (see [→ *Section 7.9.2*] for more details).

Compared to 31 December 2015, **receivables** decreased by 21% to EUR 75.9 million, representing 2.8% of total financial assets, of which receivables from direct insurance operations accounted for the bulk, having increased by 1% to EUR 58.5 million. Receivables from reinsurance and co-insurance operations decreased and reached EUR 7.5 million (index 62), whereas other receivables went down as well and totalled EUR 9.8 million (index 39).

Insurance technical provisions transferred to reinsurance contracts stood at EUR 76.5 million, having increased by 9%. Assets from reinsurance contracts from claims provisions increased and totalled EUR 59.4 million (index 109) and those from unearned premium as well, equalling EUR 17.1 million (index 111).

Property, plant and equipment totalled EUR 66.2 million (index 99), representing 2.4% of total assets. **Intangible assets** equalled EUR 55.9 million (index 105), accounting for 2.0% of total assets.

Cash and cash equivalents increased to EUR 27.7 million (index 366), whilst **other assets** decreased to EUR 1.9 million (index 70).

Balance sheet of Zavarovalnica Triglav as at 31 December 2016 – according to IFRS

	31 December 2016	31 December 2015	Index	2016 structure	2015 structure
ASSETS	2,740,333,045	2,685,432,591	102	100.0%	100.0%
Intangible assets	55,884,567	53,143,644	105	2.0%	2.0%
Property, plant and equipment	66,230,456	67,034,994	99	2.4%	2.5%
Investment property	49,611,417	52,870,808	94	1.8%	2.0%
Investments in subsidiaries	130,632,438	134,689,036	97	4.8%	5.0%
Investments in associates	9,503,047	7,259,875	131	0.3%	0.3%
Financial assets	2,246,543,870	2,194,440,477	102	82.0%	81.7%
Financial investments:	1,812,500,601	1,747,850,916	104	66.1%	65.1%
- loans and deposits	82,397,894	108,581,747	76	3.0%	4.0%
- held to maturity	168,983,706	178,250,255	95	6.2%	6.6%
- available for sale	1,365,449,446	1,268,278,321	108	49.8%	47.2%
- recognised at fair value through profit and loss	195,669,555	192,740,593	102	7.1%	7.2%
Unit-linked insurance assets	434,043,269	446,589,561	97	15.8%	16.6%
Reinsurers' share of insurance technical provisions	76,455,107	69,935,394	109	2.8%	2.6%
Receivables	75,869,085	95,716,726	79	2.8%	3.6%
- receivables from direct insurance operations	58,491,603	57,959,013	101	2.1%	2.2%
- receivables from reinsurance and co-insurance operations	7,538,096	12,219,198	62	0.3%	0.5%
- other receivables	9,839,386	25,538,515	39	0.4%	1.0%
Other assets	1,949,412	2,791,679	70	0.1%	0.1%
Cash and cash equivalents	27,653,646	7,549,958	366	1.0%	0.3%
EQUITY AND LIABILITIES	2,740,333,045	2,685,432,591	102	100.0%	100.0%
Equity	563,389,117	530,560,272	106	20.6%	19.8%
- share capital	73,701,392	73,701,392	100	2.7%	2.7%
- share premium	53,412,884	53,412,884	100	1.9%	2.0%
- reserves from profit	288,962,643	282,666,281	102	10.5%	10.5%
- fair value reserve	64,890,318	55,751,443	116	2.4%	2.1%
- net profit/loss brought forward	44,688,278	7,210,810	620	1.6%	0.3%
- net profit/loss for the year	37,733,602	57,817,462	65	1.4%	2.2%
Subordinated liabilities	21,103,108	21,101,278	100	0.8%	0.8%
Insurance technical provisions	1,645,177,811	1,614,944,129	102	60.0%	60.1%
- unearned premiums	188,487,876	180,558,991	104	6.9%	6.7%
- mathematical provisions	959,268,937	925,402,898	104	35.0%	34.5%
- claims provisions	471,240,775	486,247,722	97	17.2%	18.1%
- other insurance technical provisions	26,180,223	22,734,518	115	1.0%	0.8%
Insurance technical provisions for unit-linked insurance contracts	431,125,308	438,920,157	98	15.7%	16.3%
Employee benefits	10,547,514	9,189,038	115	0.4%	0.3%
Other provisions	689,669	381,762	181	0.0%	0.0%
Deferred tax liabilities	7,065,409	6,268,154	113	0.3%	0.2%
Other financial liabilities	1,852,710	1,752,990	106	0.1%	0.1%
Operating liabilities	24,451,951	23,886,713	102	0.9%	0.9%
- liabilities from direct insurance operations	11,202,342	10,985,581	102	0.4%	0.4%
- liabilities from reinsurance and co-insurance operations	11,507,586	10,264,596	112	0.4%	0.4%
- current tax liabilities	1,742,023	2,636,536	66	0.1%	0.1%
Other liabilities	34,930,448	38,428,098	91	1.3%	1.4%

10 Cash Flow Statement

- In 2016, cash flows from operating and investing activities of the Triglav Group and Zavarovalnica Triglav were positive, while cash flows from financing activities were negative.
- The closing balance of cash and cash equivalents of the Triglav Group amounted to EUR 65.7 million, having climbed above the 2015 year-end figure by 37%.

10.1 The Triglav Group

In 2016, the **cash flow from operating activities** of the Triglav Group was positive and equalled EUR 41.8 million, which was 5% lower compared to 2015 mainly due to the exclusion of the companies of the Avrigo Group from consolidation as they had a positive cash flow from operating activities.

Cash flow from investing activities was positive, reaching EUR 33.9 million. Compared to the previous year, no significant changes were recorded (index 99). The investment activity decreased (index 59 in cash inflows and outflows from investing activities) primarily due to the environment of

extremely low interest rates and consequently the lack of adequate investment opportunities, resulting in restrained trading in financial instruments.

Cash flow from financing activities was negative and reached EUR –57.9 million (index 87). The only expenses recorded were dividend payments and subordinated bond interest payments.

The item external acquisition was not formed in the reporting period, whilst one year earlier it amounted to EUR 15.5 million due to the acquisition of Skupna pokojninska družba.

The closing balance of cash and cash equivalents totalled EUR 65.7 million, above the 2015 figure by 37%.

Summary cash flow statement of the Triglav Group

	2016	2015	Index
A. Cash flow from operating activities			
Income statement items	35,691,434	42,999,877	83
Changes in net current assets—operating balance sheet items	6,094,910	803,846	758
Total cash flow from operating activities	41,786,344	43,803,723	95
B. Cash flows from investing activities			
Cash inflows from investing activities	1,363,785,772	2,302,278,368	59
Cash outflows from investing activities	-1,329,853,353	-2,267,948,841	59
Total cash flow from investing activities	33,932,419	34,329,527	99
C. Cash flows from financing activities			
Cash inflows from financing activities	0	1,736,108	0
Cash outflows from financing activities	-57,900,352	-68,356,145	85
Total cash flow from financing activities	-57,900,352	-66,620,037	87
D. Opening balance of cash and cash equivalents	47,928,768	22,858,388	210
E1. Net cash flow for the period	17,818,411	11,513,213	155
E2. Foreign exchange differences	-32,705	-5,421	603
E3. Cash transferred to non-current assets held for sale	0	-1,893,950	0
E4. External acquisition	0	15,456,538	0
F. Closing balance of cash and cash equivalents	65,714,474	47,928,768	137

10.2 Zavarovalnica Triglav

Cash flows from operating activities of EUR 17.0 million was positive and improved compared by 8% over to the previous year. The increase largely reflects higher inflows from reinsurance for claims settled.

Cash flow from investing activities went up by 14% to EUR 61.0 million nominally. Positive cash flow from investing activities primarily resulted from lower net cash outflows for the purchase of investments, in addition to interest income, dividends and profit distributions in other subsidiaries.

Cash flows from financing activities were negative and reached EUR –58.0 million (index 86). Financing expenses were lower mainly because of lower expenses for the repayment of ZT02 treasury bonds.

The **closing balance of cash and cash equivalents** was 226% above the 2015 year-end figure, totalling EUR 27.7 million.

Summary cash flow statement of Zavarovalnica Triglav

	2016	2015	Index
A. Cash flow from operating activities			
Income statement items	12,967,999	16,107,815	81
Changes in net current assets—operating balance sheet items	4,049,554	-363,333	
Total cash flow from operating activities	17,017,553	15,744,482	108
B. Cash flows from investing activities			
Cash inflows from investing activities	1,065,220,751	1,805,247,899	59
Cash outflows from investing activities	-1,004,173,370	-1,751,691,675	57
Total cash flow from investing activities	61,047,381	53,556,224	114
C. Cash flows from financing activities			
Cash inflows from financing activities	0	0	0
Cash outflows from financing activities	-57,961,246	-67,401,961	86
Total cash flow from financing activities	-57,961,246	-67,401,961	86
D. Opening balance of cash and cash equivalents	7,549,958	5,650,669	134
E. Net cash flow for the period	20,103,688	1,898,745	1,059
F. Closing balance of cash and cash equivalents	27,653,646	7,549,958	366