

8. Financial Result of the Triglav Group and Zavarovalnica Triglav

- In 2017, the Triglav Group generated profit before tax of EUR 84.4 million and achieved a 9.3% return on equity.
- Compared to the preceding year, the Group's combined ratio deteriorated to 93.9% primarily due to higher claims incurred.
- Lower returns on financial investment mainly reflected the unfavourable conditions in financial markets.

8.1 The Triglav Group

The Triglav Group performed well in 2017, ending the year with a **profit above the budgeted level**. Consolidated **profit before tax** totalled EUR 84.4 million (index 89), whilst **net profit** amounted to EUR 69.7 million, or 15% less than in 2016. Compared to the year before, this decrease is mostly the result of higher claims incurred and a lower return on investment due to the unfavourable situation in financial markets. **Net return on equity (ROE)** stood at 9.3%.

Despite the higher claims ratio the combined ratio remained favourable at 93.9%. Compared to the year before, it increased by 1.0 percentage point as the result of the higher share of net claims incurred in net premium earned. 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 investment) are earning a profit.

The combined ratios in the Triglav Group and individual insurance subsidiaries in 2017 compared to 2016

Insurance company	2017	2016	Change
Zavarovalnica Triglav	89.6%	87.9%	1.6 p.p.
Triglav, Zdravstvena zavarovalnica	99.4%	99.5%	-0.1 p.p.
Pozavarovalnica Triglav Re	93.8%	96.7%	-2.9 p.p.
Triglav Osiguranje, Zagreb	108.8%	107.3%	1.4 p.p.
Triglav Osiguranje, Sarajevo	99.3%	99.8%	-0.5 p.p.
Lovćen Osiguranje, Podgorica	99.1%	92.3%	6.8 p.p.
Triglav Osiguranje, Belgrade	99.7%	102.2%	-2.5 p.p.
Triglav Osiguranje, Banja Luka	97.2%	100.7%	-3.5 p.p.
Triglav Osiguruvanje, Skopje	97.0%	99.1%	-2.1 p.p.
The Triglav Group	93.9%	92.9%	1.0 p.p.

8.1.1 Premium income, claims incurred and operating expenses

Net premiums earned increased by 5% to EUR 891.2 million compared to the preceding year. Net premium income from health insurance grew by 13%, net premium income from non-life insurance went up by 4% and net premium income from life insurance rose by 3%. Net premium earned is composed of gross written insurance premium in the amount of EUR 999.9 million (index 107), reduced by ceded written premium in the amount of EUR 97.6 million (index 123) and adjusted by the change in net unearned premium of EUR -11.2 million (index 152).

Net claims incurred increased by 7% to EUR 620.0 million. The highest increase of net claims incurred was seen in health insurance (11%) due to higher gross claims paid (see [→ Section 7.6.1 for more details]), an 8% increase was recorded in non-life insurance and a 5% growth was observed in the life insurance segment. Net claims incurred are composed of gross claims paid in the amount of EUR 642.2 million (index 106), reduced by the reinsurers' and co-insurers' shares in gross claims in the amount of EUR 24.6 million (index 113), adjusted by the change in net claims provisions of EUR -3.9 million (index 28) and increased by equalisation scheme expenses for supplemental health insurance in the amount of EUR 6.3 million.

Operating expenses (acquisition costs and other operating expenses) amounted to EUR 220.8 million and were 6% higher than in 2016. Acquisition costs and other operating expenses were up by 5% and 8% respectively. Total operating expenses (all functional cost groups) grew at a slower pace than written premium, which resulted in a 0.5 percentage point lower share of expenses in written premium. See [→ Section 7.7] for more details on operating expenses.

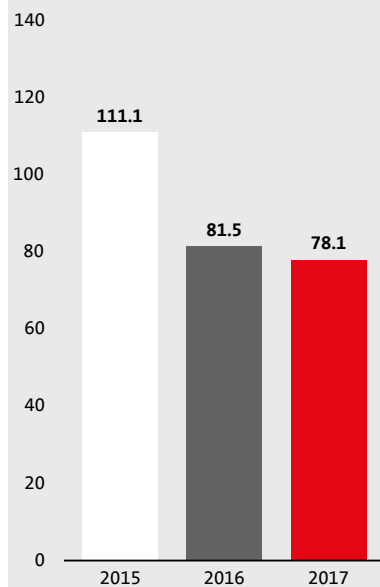
8.1.2 Income and expenses from financial assets

Income from financial assets decreased by 4% to EUR 139.8 million. Income from financial assets in associates reached EUR 0.2 million or 93% less compared to the preceding year, primarily due to lower net gains on financial assets. Income from other financial assets decreased by 7% to EUR 111.2 million, which mainly resulted from lower interest income and gains on financial assets. Net unrealised gains on unit-linked life insurance assets increased by 21% to EUR 28.4 million.

Financial expenses equalled EUR 33.6 million or 21% less than in 2016. Expenses from financial assets in associates totalled EUR 3.1 million (index 99), while expenses from other financial assets equalled EUR 30.2 million. The latter went down by 20% primarily as the result of lower losses on financial assets, permanent impairments of certain investments in the preceding year and lower expenses arising from the changes in the fair value. Net unrealised losses on unit-linked life insurance assets reached EUR 311 thousand compared to EUR 1.5 million in the respective period of 2016. Permanent impairments amounted to EUR 335 thousand, down by 90% compared to the year before.

Return on financial investments (excluding unit-linked insurance contract investments) represents the difference between income and expenses from financial assets. They dropped by 4% to EUR 78.1 million, mostly as the result of lower net interest income and higher other financial expenses as the consequence of negative foreign exchange differences in investments, which are directly reflected in return in terms of accounting treatment despite the closed currency structure.

Return on financial investments of the Triglav Group (excluding unit-linked insurance contract investments) in the 2015–2017 period (in EUR million)



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 profit before tax.

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

Changes in other insurance technical provisions summed up to EUR 60.3 million or 28% more than one year earlier, primarily due to higher mathematical provisions (EUR 59.4 million) and other insurance technical provisions for health insurance (EUR 1.5 million). Mathematical provisions were up 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 –8.3 million (2016: EUR 777 thousand) due to a decrease in price of fund units.

Other income from insurance operations, excluding fees and commissions, increased by 18% and reached EUR 6.1 million. **Other expenses from insurance operations**, excluding fees and commissions, decreased by 34% to EUR 11.2 million, mainly due to the decrease in the parent company [→ *Section 8.2.3*]. **Net fee and commission income** (in the income statement for the reporting period, fee and commission income and expenses are disclosed separately) was up by 216% and amounted to EUR 799 thousand.

Other income was down 36%, reaching EUR 34.0 million, due to the sale of a land plot and equity stakes in subsidiaries (mainly Slovenijales Trgovina) in the preceding year. **Other expenses** decreased, primarily as the result of expenses disclosed in 2016 by the subsidiaries sold. **Other expenses** fell by 26%, reaching EUR 40.6 million.

- **Return on financial investments (excluding unit-linked insurance contract investments) went down by 4%; less than expected, foremost as a result of lower net interest income and higher other financial expenses.**

Income statement of the Triglav Group for 2017 – according to IFRS

	2017	2016	Index
Net premium income	891,197,369	849,594,001	105
- gross written premium	999,916,626	936,003,815	107
- ceded written premium	-97,550,733	-79,080,949	123
- change in unearned premiums	-11,168,524	-7,328,865	152
Income from financial assets	139,837,442	146,017,485	96
Income from financial assets in associates	224,605	3,116,574	7
- profit on equity investments accounted for using the equity method	224,605	188,105	119
- realised gains on disposals	0	2,928,469	0
Income from other financial assets	111,165,371	119,446,634	93
- interest income	63,990,562	68,835,574	93
- dividends	5,346,451	3,356,769	159
- fair value gains	8,172,265	7,813,764	105
- realised gains on disposals	29,790,480	33,979,089	88
- other financial income	3,865,613	5,461,438	71
Net unrealised gains on unit-linked life insurance assets	28,447,466	23,454,277	121
Other income from insurance operations	22,568,835	5,392,172	419
- fees and commission income	16,487,470	252,793	6,522
- other income from insurance operations	6,081,365	5,139,379	118
Other income	34,033,116	53,537,175	64
Net claims incurred	619,958,781	577,102,418	107
- gross claims settled	642,162,569	606,019,569	106
- reinsurers' share	-24,573,610	-21,692,020	113
- changes in claims provisions	-3,915,964	-14,175,200	28
- equalisation scheme expenses for supplementary health insurance	6,285,786	6,950,069	90
Change in other insurance technical provisions (excluding ULI)	60,281,190	47,211,325	128
Change in insurance technical provisions for unit-linked insurance contracts	-8,250,712	776,648	
Expenses for bonuses and discounts	9,342,891	11,331,630	82
Operating expenses	220,762,633	208,675,708	106
- acquisition costs	147,942,412	141,003,013	105
- other operating costs	72,820,221	67,672,695	108
Expenses from financial assets and liabilities	33,611,711	42,533,879	79
Expenses from financial assets and liabilities in associates	3,126,853	3,174,191	99
- loss on investments accounted for using the equity method	1,981,853	247,812	800
- realised loss on disposals	1,145,000	2,926,379	39
Expenses from other financial assets and liabilities	30,173,975	37,853,884	80
- interest expense	1,631,023	1,314,505	124
- fair value losses	4,217,218	6,888,471	61
- realised loss on disposals	11,083,596	19,451,022	57
- loss on impairment of financial assets	335,255	3,197,025	10
- other expenses from financial assets and liabilities	12,906,883	7,002,861	184
Net unrealised losses on unit-linked life insurance assets	310,883	1,505,804	21
Other insurance expenses	26,855,289	17,038,345	158
- fees and commission expenses	15,688,547	0	0
- other expenses from insurance operations	11,166,742	17,038,345	66
Other expenses	40,629,897	54,732,790	74
Profit before tax	84,445,082	95,138,090	89
Income tax expense	14,737,130	12,806,316	115
Net profit for the accounting period	69,707,952	82,331,774	85
Net profit/loss attributable to the controlling company	69,256,560	81,935,753	85
Net profit attributable to the non-controlling interest holders	451,391	396,021	114

Financial result ratios of the Triglav Group

Financial result ratios	2017	2016	2015
Claims ratio	64.0%	62.0%	62.5%
Expense ratio	29.8%	30.9%	30.3%
Combined ratio	93.9%	92.9%	92.8%
Operating expenses of insurance business in gross written premiums	24.8%	25.3%	25.2%
Gross written premium per company employee* (in EUR)	222,451	211,478	209,796

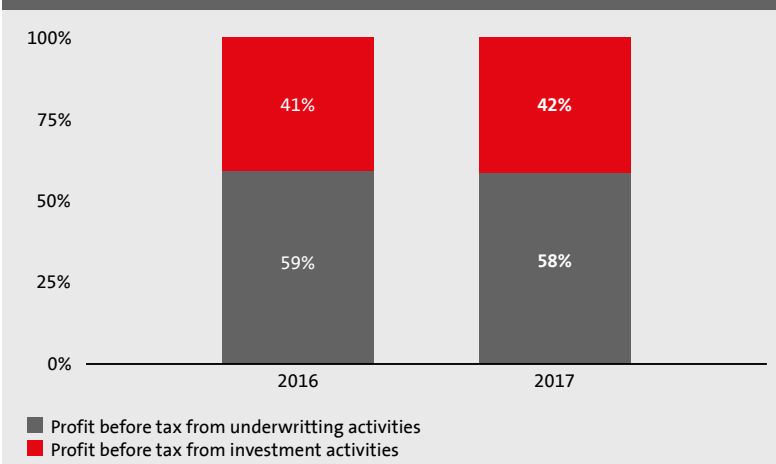
* Only the employees of the insurance companies and the reinsurance company of the Triglav Group were taken into account.

Profit/loss before tax of the Triglav Group*

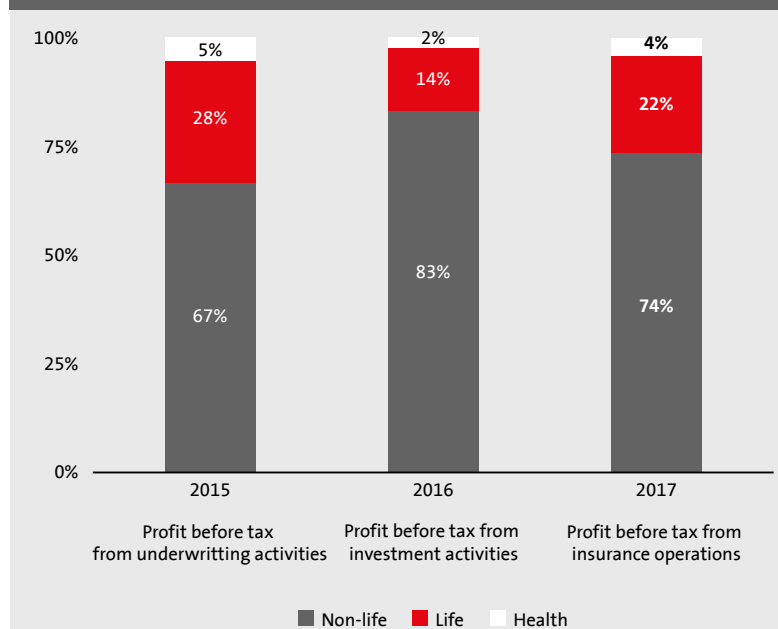
	2017				2016			
	Non-life	Life	Health	Total	Non-life	Life	Health	Total
Profit before tax from underwriting activities	32,806,680	13,895,913	2,607,645	49,310,238	38,843,797	13,286,716	2,427,265	54,557,778
Profit before tax from investment activities	29,363,482	5,004,247	853,063	35,220,792	32,046,207	4,426,697	1,039,953	37,512,857
Profit before tax from insurance operations	62,170,162	18,900,160	3,460,708	84,531,030	70,890,004	17,713,413	3,467,218	92,070,635
Profit before tax from non-insurance operations				-85,948				3,067,454
Total profit before tax				84,445,082				95,138,089

* 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 2017



Structure of profit before tax of the Triglav Group by insurance segments



8.2 Zavarovalnica Triglav

Net profit of the parent company stood at EUR 62.5 million, down by 17% compared to the previous year. The Company's **profit before tax** dropped by 12% to EUR 73.8 million. They both decreased foremost as the result of higher net claims incurred. **Net return on equity (ROE)** stood at 11.0%, which was 2.8 percentage points less than in 2016.

The increased ratio of net claims incurred in net premium earned was reflected in the **combined ratio in non-life insurance**, which rose by 1.6 percentage point to 89.6%.

8.2.1 Premium income, claims incurred and operating expenses

Net premium earned increased by 2% to EUR 522.1 million compared to the preceding year. Net non-life and net life premium earned increased by 3% and 2% respectively. Net premium earned is composed of gross written insurance and co-insurance premium in the amount of EUR 622.0 million (index 105), reduced by ceded written premium in the amount of EUR 93.5 million (index 119) and adjusted by the change in gross unearned premium of EUR –6.4 million (index 132).

Net claims incurred increased by 7%, amounting to EUR 376.3 million. In non-life insurance and life insurance, net claims incurred went up by 9% and 6% respectively. Net claims incurred are composed of gross claims paid in the amount of EUR 411.3 million (index 105), reduced by the reinsurers' and co-insurers' shares in claims in the amount of EUR 24.6 million (index 119) and adjusted by the change in net claims provisions of EUR –10.4 million (index 52).

Operating expenses (acquisition costs and other operating expenses) amounted to EUR 145.9 million, up by 3% compared to 2016. Acquisition costs rose by 3% and other operating expenses by 2%. Operating expenses increased mainly as a result of higher direct and indirect insurance contract acquisition costs due to high premium growth. Total operating expenses (all functional cost groups) grew at a slower pace than written premium, which resulted in a 0.7 percentage point lower share of expenses in written premium.

8.2.2 Income and expenses from financial assets

Income from financial assets was 3% lower or EUR 112.1 million in nominal terms, whilst income from financial assets in associates totalled EUR 7.1 million or 28% less than in the preceding year, mainly as the result of lower net gains on financial assets.

Income from other financial assets fell by 7% to EUR 77.3 million, primarily as the result of lower gains on financial assets and lower interest income. Net unrealised gains on unit-linked life insurance assets increased by 20% to EUR 27.8 million.

Financial expenses equalled EUR 22.0 million, down by 27% compared to 2016. Expenses from financial assets in associates amounted to EUR 4 thousand compared to EUR 552 thousand in 2016 as the result of losses on financial assets. Expenses from other financial assets and liabilities decreased by 23% to EUR 21.8 million, primarily as the result of lower losses on financial assets and permanent impairments of certain investments last year. Net unrealised losses on unit-linked life insurance assets reached EUR 143 thousand, down by 89% compared to the year before.

Return on financial investments (excluding unit-linked insurance contract investments) dropped by 2% to EUR 62.5 million, primarily as the result of lower net gains on financial assets and lower net interest income. The loss of net gains on financial assets was partially compensated for by higher dividend income in the Triglav Group.

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

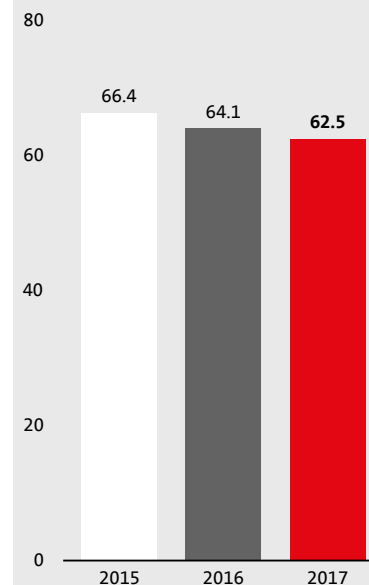
Changes in other insurance technical provisions totalled EUR 35.4 million, accounting for an increase of 23% primarily due to higher mathematical provisions (EUR 36.1 million). The growth resulted from higher volume of supplemental voluntary pension insurance and payments into the guaranteed return fund.

Change in insurance technical provisions for unit-linked insurance contracts equalled EUR –14.7 million (index 197) due to the decrease in the price of fund units.

Other income from insurance operations, excluding fees and commissions, decreased by 1% to EUR 3.9 million. **Other insurance expenses**, excluding fees and commissions expenses, fell by 44% to EUR 4.8 million, mainly caused by lower expenses for the value adjustment of receivables due to impairment. **Net fee and commission income** (in the income statement for the reporting period, fee and commission income and expenses are disclosed separately) was up by 4% and amounted to EUR 15.8 million.

Other income was down by 13%, reaching EUR 11.0 million. In 2016, other income included the withdrawal of the guarantee for Triglav Pojišt'ovna in the amount of EUR 1.4 million. **Other expenses** grew by 10% to EUR 13.3 million, mainly due to higher provisions for performance.

The return on financial investments of Zavarovalnica Triglav (excluding unit-linked life insurance contract investments) in 2015–2017 (in EUR million)



Income statement of Zavarovalnica Triglav for 2017 – according to IFRS

	2017	2016	Index
Net premium income	522,057,353	509,765,204	102
- gross written premium	621,971,336	593,129,011	105
- ceded written premium	-93,522,581	-78,508,398	119
- change in unearned premiums	-6,391,402	-4,855,409	132
Income from financial assets	112,144,711	115,997,114	97
Income from financial assets in associates	7,106,829	9,836,781	72
- interest income	845,981	857,579	99
- dividends	6,172,954	62,153	9.932
- realised gains on disposals	83,290	8,911,599	1
- other financial income	4,604	5,450	84
Income from other financial assets	77,277,446	83,084,119	93
- interest income	44,655,685	48,356,136	92
- dividends	2,787,574	2,367,645	118
- fair value gains	2,767,288	1,708,114	162
- realised gains on disposals	25,370,295	29,252,705	87
- other financial income	1,696,604	1,399,519	121
Net unrealised gains on unit-linked life insurance assets	27,760,436	23,076,214	120
Other income from insurance operations	21,938,604	19,160,149	115
- fees and commission income	18,011,730	15,201,866	118
- other income from insurance operations	3,926,874	3,958,283	99
Other income	10,951,423	12,645,615	87
Net claims incurred	376,292,830	350,739,765	107
- gross claims settled	411,305,524	391,236,320	105
- reinsurers' share	-24,624,035	-20,679,367	119
- changes in claims provisions	-10,388,659	-19,817,188	52
Change in other insurance technical provisions (excluding ULI)	35,366,975	28,758,525	123
Change in insurance technical provisions for unit-linked insurance contracts	-14,678,837	-7,469,473	197
Expenses for bonuses and discounts	8,073,088	9,108,703	89
Operating expenses	145,922,909	142,229,598	103
- acquisition costs	105,301,136	102,587,533	103
- other operating costs	40,621,773	39,642,065	102
Expenses from financial assets and liabilities	21,992,479	30,163,394	73
Expenses from financial assets and liabilities in associates	4,435	551,754	1
- realised loss on disposals	0	544,414	0
- other expenses from financial assets and liabilities	4,435	7,340	60
Expenses from other financial assets and liabilities	21,845,151	28,252,856	77
- interest expense	1,549,066	1,383,064	112
- fair value losses	1,614,514	1,885,016	86
- realised loss on disposals	10,588,355	18,158,535	58
- loss on impairment of financial assets	200,000	3,097,058	6
- other expenses from financial assets and liabilities	7,893,216	3,729,183	212
Net unrealised losses on unit-linked life insurance assets	142,893	1,358,784	11
Other insurance expenses	6,980,751	8,476,079	82
- fees and commission expenses	2,211,487	0	0
- other expenses from insurance operations	4,769,264	8,476,080	56
Other expenses	13,319,580	12,143,689	110
Profit before tax	73,822,316	83,417,802	88
Income tax expense	11,300,366	8,084,200	140
Net profit for the accounting period	62,521,950	75,333,602	83

Financial result ratios of Zavarovalnica Triglav

Financial result ratios	2017	2016	2015
Return on equity	11.0%	13.8%	10.9%
Claims ratio	58.5%	55.7%	55.2%
Expense ratio	31.0%	32.3%	31.0%
Combined ratio	89.6%	87.9%	86.2%
Operating expenses of insurance business in gross written premiums	27.0%	27.7%	27.5%