

8. Financial result of the Triglav Group and Zavarovalnica Triglav

8.1 The Triglav Group

Good business results of the Triglav Group in 2018 are reflected in **profit above the budgeted level** as a result of a higher growth in net premium earned than growth in net claims incurred, more favourable net loss ratio and several one-off events. The latter included the realisation of capital gains on the sale of investment funds from own portfolio of the subsidiary Triglav Skladi in the amount of EUR 3.6 million. **Consolidated profit before tax** amounted to EUR 97.5 million or 15% more than in 2017, whilst **net profit** was up by 16% and reached EUR 80.8 million. **Net return on equity** was 10.8%, up by 1.5 percentage point.

The **combined ratio** of the Group was in the positive territory of expected values at 91.8%. The combined ratio was down by 1.3 percentage point compared to the year before, primarily as a result of the improved loss ratio and a higher growth in net premium earned than growth in net claims incurred. 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 of the Triglav Group and individual insurance companies in 2018 compared to 2017

Insurance company	2018	2017	Change
Zavarovalnica Triglav	86.1%	87.9%	-1.8 p.p.
Triglav, Zdravstvena zavarovalnica	99.3%	99.4%	-0.1 p.p.
Pozavarovalnica Triglav Re	96.2%	94.2%	2.0 p.p.
Triglav Osiguranje, Zagreb	103.1%	108.8%	-5.7 p.p.
Triglav Osiguranje, Belgrade	97.9%	99.7%	-1.8 p.p.
Lovćen Osiguranje, Podgorica	91.0%	99.3%	-8.3 p.p.
Triglav Osiguranje, Sarajevo	99.8%	99.3%	0.5 p.p.
Triglav Osiguranje, Banja Luka	107.7%	97.2%	10.4 p.p.
Triglav Osiguruvanje, Skopje	100.8%	97.0%	3.8 p.p.
Triglav Group	91.8%	93.1%	-1.3 p.p.

- In 2018, the Triglav Group generated a profit before tax of EUR 97.5 million and achieved a 10.8% return on equity.
- Compared to the preceding year, the Group's combined ratio improved to 91.8% primarily due to higher net premium earned.
- Lower rates of return on financial investment mainly resulted from the unfavourable conditions in financial markets and lower gains on financial assets.

8.1.1 Premium income, claims incurred and operating expenses

Net premium earned increased by 7% to EUR 951.8 million. Net premium income from health insurance grew by 11%, net premium income from non-life insurance went up by 8% and net premium income from life insurance rose by 2%. Net premium earned is composed of gross written insurance in the amount of EUR 1,068.4 million (index 107), reduced by ceded written premium in the amount of EUR 106.6 million (index 109) and adjusted by the change in net unearned premium of EUR -10.0 million (index 90).

Net claims incurred increased by 1% and totalled EUR 626.6 million. Net claims incurred in health insurance recorded the highest growth of 11% due to higher gross claims paid [→ see Section 7.6.1 for more details]. Net claims incurred increased by 4% in non-life insurance and decreased by 10% in life insurance. Net claims incurred are composed of gross claims paid in the amount of EUR 679.6 million (index 106), reduced by the reinsurers' and co-insurers' shares in gross claims in the amount of EUR 40.0 million (index 163), adjusted by the change in net claims provisions of EUR -19.2 million (index 492) and increased by equalisation scheme expenses for supplemental health insurance in the amount of EUR 6.2 million (index 99).

Operating expenses (acquisition costs and other operating expenses) amounted to EUR 233.6 million, up by 6% compared to 2017. Acquisition costs rose by 8% and other operating expenses by 2%. Higher operating expenses were mainly caused by higher indirect and direct acquisition costs due to strong premium growth. The growth of total operating expenses (all functional expenses groups) was behind premium growth, which resulted in a lower share of expenses in written premium by 0.4 percentage point. See [→ Section 7.7] for more details on operating expenses.

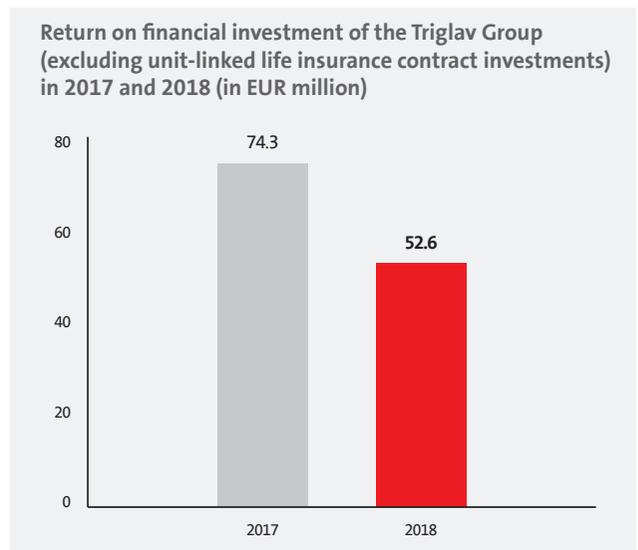
8.1.2 Income and expenses from financial assets

Income from investments, including income from investments in associates decreased by 32% and reached EUR 89.9 million. Income from investments in associates amounted to EUR 1.0 million (index 455), whereas income from investments decreased by 33% to EUR 88.9 million. In the reporting period, interest income was down by 5% to EUR 55.6 million, gains on disposals decreased by 20% to EUR 23.8 million and other income from investments totalled EUR 9.5 million (index 21). Other income from investments include net unrealised gains on unit-linked life insurance assets which totalled EUR 451 thousand (vs. EUR 28.4 million in 2017), dividends in the amount of EUR 4.0 million (index 76), changes in fair value equalling EUR 1.0 million (index 13) and other financial income in the amount of EUR 4.0 million (index 134).

Expenses from investments, including expenses from investments in associates, increased by 119% and reached EUR 67.3 million. Expenses from investments in associates totalled EUR 137 thousand (vs. EUR 3.1 million in 2017), while investment expenses equalled EUR 67.1 million, having increased by 143%. Losses on disposals totalled EUR 13.1 million (index 118), impairments of equity investments amounted to EUR 1.5 million (vs. EUR 335 thousand in 2017) and other investment expenses equalled EUR 52.5 million (index 323). Other investment expenses include net unrealised losses on unit-linked life insurance assets totalling EUR 30.4 million (vs. EUR 311 thousand in 2017), changes in fair value equalling EUR 15.4 million (index 366) and other financial expenses in the amount of EUR 6.7 million (index 57).

Return on investment of the Triglav Group (excluding unit-linked life insurance contract investments) represents the difference between income and expenses from financial assets. It dropped by 29% to EUR 52.6 million, primarily as a result of lower net gains on the sale of financial assets, lower net income arising from changes in fair value, lower net interest income and lower dividend received. Continuously lower interest income is further caused by lower interest rates.

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



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

Changes in other insurance technical provisions decreased to EUR 39.9 million (vs. EUR 60.3 million in 2017) primarily due to a lower growth of mathematical provisions. **Change in insurance technical provisions for unit-linked insurance contracts** equalled EUR -46.9 million (vs. EUR -8.3 million in 2017) due to a decrease in the value of fund units. **Expenses for bonuses and discounts** increased by 22% to EUR 11.4 million, foremost as a result of higher bonuses paid out in the parent company (see more [[→ in Section 8.2.3](#)]).

Other income from insurance operations, excluding fees and commissions, went up by 10% to EUR 14.0 million. **Other insurance expenses**, excluding fees and commissions, increased by 38% and totalled EUR 17.1 million mainly due to higher value adjustments

of receivables in the parent company and Lovćen Osiguranje. **Net fee and commission income** amounted to EUR -850 thousand (vs. EUR 799 thousand in 2017).

Other income was up by 6%, totalling EUR 36.1 million, primarily due to higher income from sale of real properties in the parent company. **Other expenses** were also 6% higher, amounting to EUR 44.6 million, mainly as a result of higher performance provisions.

Income statement of the Triglav Group for 2018 – according to IFRS

	2018	2017	Index
Net premium income	951,762,862	891,197,369	107
- gross written premium	1,068,394,407	999,916,626	107
- ceded written premium	-106,624,908	-97,550,733	109
- change in unearned premium reserve	-10,006,637	-11,168,524	90
Income from investments in subsidiaries and associates	1,021,159	224,605	455
- profit on equity investments accounted for using the equity method	1,021,159	224,605	455
Income from investments	88,889,077	132,944,438	67
- interest income calculated using the effective interest method	55,573,242	58,196,582	95
- gains on disposals	23,777,837	29,790,480	80
- other income from investments	9,537,998	44,957,376	21
Other income from insurance operations	29,837,981	29,237,231	102
- fees and commission income	15,806,181	16,487,470	96
- other income from insurance operations	14,031,800	12,749,762	110
Other income	36,149,533	34,033,116	106
Net claims incurred	626,560,398	619,958,781	101
- gross claims settled	679,600,218	642,162,569	106
- reinsurers' share	-39,988,966	-24,573,610	163
- changes in claims provisions	-19,248,552	-3,915,964	492
- equalisation scheme expenses for supplementary health insurance	6,197,698	6,285,786	99
Change in other insurance technical provisions (excluding ULI)	39,860,373	60,281,190	66
Change in insurance technical provisions for unit-linked insurance contracts	-46,889,547	-8,250,712	568
Expenses for bonuses and discounts	11,417,685	9,342,891	122
Operating expenses	233,637,425	220,762,633	106
- acquisition costs	159,245,093	147,942,412	108
- other operating costs	74,392,332	72,820,221	102
Expenses from investments in subsidiaries	137,092	3,126,853	4
- loss on investments accounted for using the equity method	137,092	1,981,853	7
- other expenses from financial assets and liabilities	0	1,145,000	0
Expenses from investments	67,118,486	27,651,058	243
- loss on impairment of investments	1,497,483	335,255	447
- loss on disposal of investments	13,128,928	11,083,596	118
- other expenses from investments	52,492,075	16,232,207	323
Other insurance expenses	33,744,135	28,058,062	120
Other expenses	44,618,763	42,260,921	106
- expenses from financing	1,384,361	1,631,023	85
- other expenses	43,234,402	40,629,898	106
Profit before tax	97,455,802	84,445,082	115
Income tax expense	16,629,557	14,737,130	113
Net profit for the period	80,826,245	69,707,952	116
Net profit/loss attributable to the controlling company	80,662,754	69,256,560	116
Net profit/loss attributable to the non-controlling interest holders	163,491	451,391	36

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Financial result ratios of the Triglav Group

Financial result ratios	2018	2017	2016
Loss ratio	62.5%	64.0%	62.0%
Expense ratio*	29.3%	29.0%	30.9%
Combined ratio*	91.8%	93.1%	92.9%
Operating expenses of insurance business in gross written premiums**	24.5%	24.8%	25.3%
Gross written premium per company employee* (in EUR)	237,579	224,171	212,559

* Due to the change in the presentation of the income statement, the calculations of the expense and combined ratios for 2017 and 2018 were adjusted for comparison purposes.

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

Structure of profit before tax of the Triglav Group*

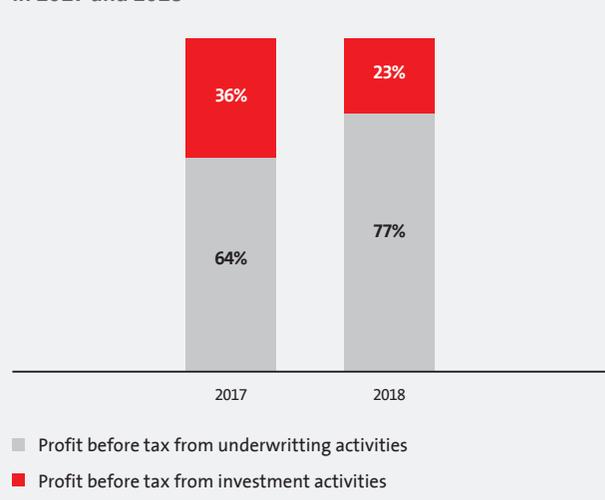
	2018				2017			
	Non-life	Life	Health	Total	Non-life	Life	Health	Total
Profit before tax from underwriting activities	51,167,138	17,820,019	2,638,850	71,626,007	37,215,150	14,426,530	2,607,645	54,249,325
Profit before tax from investment activities	24,534,323	-3,699,325	723,642	21,558,640	24,955,012	4,473,629	853,063	30,281,704
Profit before tax from insurance operations	75,701,461	14,120,694	3,362,492	93,184,647	62,170,162	18,900,159	3,460,708	84,531,029
Profit before tax from non-insurance operations				4,271,156				-85,948
Total profit before tax				97,455,802				84,445,082

* 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.

The improved non-life insurance result resulted from higher profit before tax from underwriting activities, mainly due to higher net premium earned and more favourable net claims experience. Due to higher net realised capital gains, profit before tax from investments was comparable with the previous year.

The lower life insurance result of the Group primarily resulted from lower return on assets of insurance technical provisions (EUR 5.1 million) and the modified methodology for the calculation of additional mathematical provisions for supplemental voluntary pension insurance, which increased their value by EUR 3.4 million. On the other hand, additional provisions made due to the liability adequacy test (LAT) were lower by EUR 0.8 million; in parallel, the Group allocated EUR 1.1 million less to participating life insurance policies (due to lower realised return on assets of life insurance technical provisions).

Structure of profit before tax of the Triglav Group in 2017 and 2018

**8.2 Zavarovalnica Triglav**

Zavarovalnica Triglav performed well and ended 2018 with a higher profit. Compared to the preceding year, the Company's **profit before tax** increased by 6% and reached EUR 78.5 million. The Company's **net profit** grew by 5%, amounting to EUR 65.5 million. Growth of both profits is primarily a result of the higher growth of net premium earned than the growth of net claims incurred. **Net return on equity** continued to be favourable at 11.6% and rose by 0.6 percentage points compared to 2017.

Growth of net premium earned was higher than the growth of net claims incurred, which was reflected in the **combined ratio of non-life insurance**, having decreased by 1.8 percentage point to 86.1% compared to 2017.

8.2.1 Premium income, claims incurred and operating expenses

Net premium earned increased by 6% to EUR 551.9 million compared to the preceding year. Net premiums earned from non-life insurance increased by 8%, whilst that from life insurance remained at approximately the same level as the year before (index 100). Net premium earned are composed of gross written insurance and co-insurance premium in the amount of EUR 660.2 million (index 106), reduced by the reinsurers' share and adjusted by the change in gross unearned premium in the amount of EUR 101.3 million (index 108), and restated for changes in net unearned premium which amount to EUR -7.0 million (index 109).

Net claims incurred decreased by 4%, amounting to EUR 359.9 million. Net claims incurred increased by 3% in non-life insurance, whereas they were down by 13% in life insurance. Net claims incurred are composed of gross claims paid in the amount of EUR 421.0 million (index 102), reduced by the reinsurers' and co-insurers' shares in claims in the amount of EUR 37.8 million (index 153) and adjusted by the change in net claims provisions of EUR -23.3 million (index 224).

Operating expenses (acquisition costs and other operating expenses) amounted to EUR 153.0 million and were 5% higher than in 2017. Acquisition costs and other operating expenses also rose by 5%. Higher operating expenses were mainly caused by higher indirect and direct acquisition costs due to strong premium growth. The growth of total operating expenses (all functional expenses groups) was lower than the premium growth, which resulted in a lower share of expenses in written premium by 0.6 percentage point.

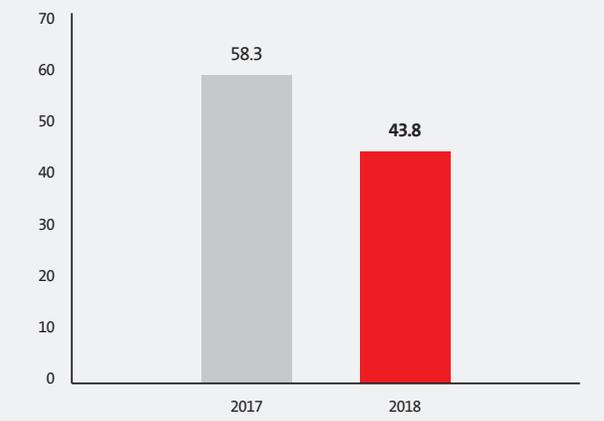
8.2.2 Income and expenses from financial assets

Income from investments, including income from investments in associates, decreased by 37% and reached EUR 67.1 million, whilst income from financial assets in associates totalled EUR 5.3 million or 25% less than in the preceding year, mainly as the result of lower dividends paid (index 73). Income from financial investments decreased by 38% to EUR 61.8 million. In the reporting period, interest income was down by 5% to EUR 36.9 million, gains on disposals decreased by 27% to EUR 18.5 million and other income from investments totalled EUR 6.3 million (index 18). Other income from investments include net unrealised gains on unit-linked life insurance assets reached EUR 440 thousand compared to EUR 27.8 million in the respective period of 2017.

Expenses from investments, including expenses from investments in associates increased by 149% and reached EUR 50.9 million. Expenses from financial assets in associates totalled EUR 5 thousand (index 107), while expenses from financial assets equalled EUR 50.9 million (index 249). Losses on disposals totalled EUR 12.6 million (index 119), impairments of equity investments amounted to EUR 1.2 million (2017: EUR 200 thousand) and other investment expenses equalled EUR 37.1 million (index 385). Other investment expenses include net unrealised losses on unit-linked life insurance assets totalled EUR 28.1 million (2017: EUR 143 thousand), changes in fair value equalling EUR 5.4 million (index 335) and other financial expenses in the amount of EUR 3.6 million (index 45).

Return on financial investments, excluding unit-linked insurance contract investments, amounted to EUR 43.8 million and were 25% lower compared to 2017, primarily as a result of lower net gains on the sale of financial assets, lower net income arising from changes in fair value, lower net interest income and lower dividends received. Continuously lower interest income is further caused by lower interest rates.

Return on financial investments of Zavarovalnica Triglav (excluding unit-linked life insurance contract investments) in 2017 and 2018 (in EUR million)



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

Changes in other insurance technical provisions decreased to EUR 29.5 million (2017: EUR 35.4 million) primarily due to a lower growth of mathematical provisions.

Change in insurance technical provisions for unit-linked insurance contracts equalled EUR -50.9 million (index 347) due to a decrease in price of fund units. **Expenses for bonuses and discounts** increased by 31% to EUR 10.6 million, foremost as a result of higher payment of bonuses due to the increased volume in premium arising from concluded policy contracts with corporate customers.

Other income from insurance operations, excluding fees and commissions, increased by 7% and reached EUR 10.4 million. **Other insurance expenses**, excluding fees and commissions expenses, increased by 73%, amounting to EUR 8.1 million mainly due to higher adjustments of receivables. **Net fee and commission income** decreased by 9% to EUR 15.3 million.

Other income was up by 14%, totalling EUR 12.5 million, primarily due to higher income from sale of real properties. **Other expenses** were 5% higher, amounting to EUR 15.6 million, mainly as a result of higher performance provisions.

Income statement of Zavarovalnica Triglav for 2018 – according to IFRS

	2018	2017	Index
Net premium income	551,940,868	522,057,353	106
- gross written premium	660,210,432	621,971,336	106
- ceded written premium	-101,297,110	-93,522,581	108
- change in unearned premium	-6,972,454	-6,391,402	109
Income from investments in subsidiaries and associates	5,305,545	7,106,829	75
- other income from investments in subsidiaries and associates	5,305,545	7,106,829	75
Income from investments	61,755,135	99,243,902	62
- interest income calculated using the effective interest method	36,890,019	38,861,704	95
- gains on disposals	18,521,649	25,370,295	73
- other income from investments	6,343,467	35,011,903	18
Other income from insurance operations	27,448,384	27,732,584	99
- fees and commission income	17,004,132	18,011,729	94
- other income from insurance operations	10,444,252	9,720,855	107
Other income	12,491,979	10,951,423	114
Net claims incurred	359,941,674	376,292,830	96
- gross claims settled	421,002,582	411,305,524	102
- reinsurers' share	-37,767,613	-24,624,035	153
- changes in claims provisions	-23,293,295	-10,388,659	224
Change in other insurance technical provisions (excluding ULI)	29,499,390	35,366,975	83
Change in insurance technical provisions for unit-linked insurance contracts	-50,884,979	-14,678,837	347
Expenses for bonuses and discounts	10,571,287	8,073,088	131
Operating expenses	153,008,918	145,922,909	105
- acquisition costs	110,230,112	105,301,136	105
- other operating costs	42,778,806	40,621,773	105
Expenses from investments in subsidiaries and associates	4,759	4,435	107
- other expenses from financial assets and liabilities	4,759	4,435	107
Expenses from investments	50,929,727	20,438,978	249
- loss on impairment of investments	1,248,877	200,000	624
- loss on disposal of investments	12,566,364	10,588,356	119
- other expenses from investments	37,114,486	9,650,622	385
Other insurance expenses	11,819,639	6,980,751	169
Other expenses	15,594,244	14,868,646	105
- expenses from financing	1,507,022	1,549,066	97
- other expenses	14,087,222	13,319,580	106
Profit before tax	78,457,252	73,822,316	106
Income tax expense	12,913,388	11,300,366	114
Net profit for the period	65,543,864	62,521,950	105

Financial result ratios of Zavarovalnica Triglav

Financial result ratios	2018	2017	2016
Return on equity	11.6%	11.0%	13.8%
Loss ratio	55.4%	58.5%	55.7%
Expense ratio	30.7%	29.4%	32.3%
Combined ratio	86.1%	87.9%	87.9%
Operating expenses of insurance business in gross written premiums	26.4%	27.0%	27.7%

* Due to the change in the presentation of the income statement, the calculations of the expense and combined ratios for 2018 and 2017 were adjusted for comparison purposes.