

7. Performance of the Triglav Group and Zavarovalnica Triglav

- The economic recovery positively affected the premium growth on the insurance markets of the Triglav Group, where the challenging competitive conditions continued.
- Premium growth was recorded in all insurance segments and in all insurance markets.
- The Triglav Group maintained its leading market position in Slovenia, Montenegro and North Macedonia. Furthermore, the Group increased its market share in Serbia.
- Unlike the year before, the reporting year was more favourable in terms of major CAT events and their intensity.
- Premium growth rate above operating costs growth rate.
- Low interest rates continues to reduce rates of return on investment.

7.1 The general economic environment worldwide and in Slovenia

In 2018, the global economy moved to the late stage of the economic cycle. The growth of developed economies is gradually slowing down, while the growth of developing countries is moderately growing. The US economy maintains a strong growth supported by fiscal stimulus, whereas reduced trade contributed to a noticeable economic slowdown in Europe. Nevertheless, the euro area growth remains favourable at around 2%. As a result of increasing employment and thereby higher disposable income, private consumption gradually rose. Supported by favourable financing conditions and high corporate profits, investment consumption recorded growth. Inflation in the euro area remained at a low level at slightly less than 2%.

Slovenia's economy saw strong growth for the fifth consecutive year. According to the latest forecasts, it is slightly lower than the previous year, but an around 4.5% real GDP growth is still well above the euro area average. The growth of international trade and consequently industrial production slowed down, whereas domestic consumption increased, supported by both final and investment consumption. The situation in the labour market and consumer sentiment improved, while financing conditions remained very favourable. The registered unemployment rate fell significantly, on average to just over 8% of the working age population. Accompanied by favourable economic trends, Slovenia even recorded a small budget surplus. Gross consolidated debt declined again and reached almost 70% of GDP. The annual inflation rate gradually increased, but did not exceed 2% at the annual level, thus remaining relatively low.

The financial markets, particularly at the end of 2018, were marked by strong stock market corrections as a result of the uncertainty surrounding the global economic slowdown and the consequences of trade wars. In Europe, the uncertainties increased mostly due to the political situation and budget adoption in Italy and Brexit. Financial market shocks were observed in some developing countries such as Turkey and Argentina, which are both burdened by high macroeconomic imbalances. The US Federal Reserve (Fed) continued to raise the target interest rate range, whereas the European Central Bank's (ECB) interest rates will remain unchanged at least through the first half of 2019. Moreover, the ECB ended its net asset purchases as at the 2018 year-end.

Characterised by long fluctuations, the return on 10-year German government bond stood at around 0.46% throughout the year, ending 2018 at 0.24% or 0.18 percentage point lower than at the beginning of the year. The return on the 10-year Slovene bond was 1.09% on average, whereas at the 2018 year-end it reached 1.02%, which is 0.13 percentage point higher compared with the beginning of the

year. A similar dynamics was observed in the return on long-term bonds of most other euro area countries. In contrast, the return on the 10-year Italian government bond soared by more than one percentage point at the beginning of political uncertainty, however at the year-end it fell to 2.74%.

The global stock market indices ended 2018 in the red. Following an all-time high in September, the American S&P 500 recorded a 6.2% loss as at the year-end. The European Stoxx 50 and the Chinese Hang Seng performed even more poorly, as they fell by 14.3% and 13.6% respectively. With 0.2% decline, the Slovene SBI remained practically unchanged.

Despite growth slowdown, the outlook for the global economy in 2019 is still favourable. The dynamics could be significantly changed by the uncertainties associated with the consequences of the protectionist-oriented policies of some of the most influential countries worldwide, the developments surrounding Brexit and new political tensions in Italy. The expected further normalisation of monetary policies could destabilise the financial position of the more vulnerable sectors or countries.

The outlook for the Slovene economy continues to be favourable. Official institutions forecast a lower real GDP growth, but still around 3.5%. There are slightly more uncertainties surrounding the realisation of these forecasts than in past years, the reasons for this are mainly the possible changes in the international environment.

Considering the further normalisation of the global economic growth and increased uncertainty about the future, it is expected that investors will be focusing more on safe investments. It is expected that 2019 will be less favourable for investors in stock markets. The same expectation also applies to the bond markets, particularly due to the further normalisation of the monetary policies of the key central banks, with a few increases in the U.S. interest rates and with the first rise in interest rates in the euro area at the end of the year. The overall return on long-term government bonds could significantly increase compared to the beginning of the year if the risks arising from growth slowdown, and particularly political uncertainties, diminish.

7.2 Environmental impact on the performance of the Triglav Group¹⁸

The economic recovery positively affected the premium growth. Nevertheless, fierce price competition and the challenging competitive conditions on the insurance markets of the Triglav Group continued. The Company and its subsidiaries respond to the market conditions by adapting their marketing, sales and price policies, as presented [*→ in Section 11. Development and sales activities*], by launching new products and redesigning the existing ones, upgrading their business processes and taking measures to improve the insurance technical result.

The conditions on the financial markets remained unfavourable, and the record low interest rates resulted in a lower return on investment.

With respect to mass loss events, the reporting year was more favourable than the previous year. Nevertheless, mass loss events, which occurred in Q2 2018 and amounted to EUR 18.3 million, affected the business results of the Triglav Group. In May, a hail storm and floods in eastern part of Slovenia caused EUR 4.0 million, and in June a hail storm resulted in EUR 13.2 million of damage (three loss events). In early June, storms with hail caused EUR 1.6 million in claims in North-Eastern Slovenia. On 8 June 2018, Bela Krajina and North-Eastern Slovenia were hit by hail, causing damages of EUR 10.0 million, whereas in mid-June the Zasavje region and its surroundings reported claims of EUR 1.6 million. The hailstorm in North Macedonia in May and June caused damage of EUR 1.1 million.

7.3 Global insurance market¹⁹

According to the most recent official data published by Pozaarovalnica Swiss Re, the **global insurance market** recorded a 2% growth in 2017 and 3% growth one year earlier. The highest growth of 6% was again achieved by Asia. Its market share increased by 0.9 percentage point to 32.5%, and came close to the first ranked America (North and South America), which remained the market leader with 34.0% of total global premium (0.3 percentage point less than the year before). Europe held a 30.2% of total global premium, which decreased by 0.6 percentage point compared to the previous year. The share held by Oceania shrunk, accounting for 1.9% (2016: 2.0%), whilst Africa's share grew by 0.1 percentage point to 1.4% (2016: 1.3%).

¹⁸ GRI GS 201-2 | ¹⁹ GRI GS 102-4, 102-6

7.4 Operations of the Triglav Group in the Adria region (South-East Europe)²⁰

7.4.1 South-East Europe

The Triglav Group sells insurance in seven markets in six countries: in Slovenia, Croatia, Serbia, Montenegro, Bosnia and Herzegovina and North Macedonia.

Zavarovalnica Triglav and the specialised insurers Triglav, Zdravstvena zavarovalnica and Skupna pokojninska družba are active on the well-developed Slovene market. Other insurance markets remain relatively undeveloped with an estimated major development potential. Motor vehicle insurance prevailed in the markets outside of Slovenia.

Pozavarovalnica Triglav Re offers its services in the entire region.

Backed by moderate economic growth, the volume of insurance markets increased in all countries in the region. Maximum relative premium growth was recorded in North Macedonia and Croatia. The **Slovene insurance market** grew substantially. Growth was also seen in the markets of Montenegro, Serbia and Bosnia and Herzegovina, but positive trends were slower.

The Triglav Group maintained its leading position in Slovenia, Montenegro and North Macedonia. The Group increased its

market share in Serbia, and maintained it in Croatia and the Republic of Srpska. Total written premium increased in all markets. In Serbia, the Group exceeded the market growth rate and practically everywhere grew at a rate not significantly lagging behind the total market growth rate [→ see Section 7.5 Gross written insurance, co-insurance and reinsurance premiums for more details].

Market share trends in the insurance companies of the Triglav Group in 2018

Market	Market share	Market share trend	Ranked in 2018	Ranked in 2017
Slovenia	35.4 %	↓ -0,2-percentage point	1	1
Croatia	4.4 %	■ 0,0-percentage point	9	9
Serbia**	6.0 %	↑ +0,2-percentage point	5	5
Montenegro	37.9 %	↓ -0,3-percentage point	1	1
Bosnia and Herzegovina***	8.0 %	↓ -0,2-percentage point	6	4
- Federation of BiH	8.8 %	↓ -0,1-percentage point	7	7
- Republic of Srpska*/***	5.5 %	■ 0,0-percentage point	8	7
North Macedonia	14.5 %	↓ -0,1-percentage point	1	1

* Market shares of Triglav Osiguranje, Banja Luka and subsidiary of Triglav Osiguranje, Sarajevo were taken into account
 ** Q1-3 2018 data
 *** H1 2018 data

In the markets where the Group holds a high market share and the 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 other competitive advantages, while taking into account the applicable local legislation and risks.

More details on individual markets and the market position of the Group subsidiaries are provided below.

Main macroeconomic indicators for 2018 by insurance market of the Triglav Group

Macroeconomic indicators	Slovenia	Croatia	Serbia	Montenegro	Bosnia and Herzegovina	North Macedonia
Population (in million)	2.1	4.1	7.0	0.6	3.5	2.1
GDP growth (estimate in %)	4.5	2.8	4.0	3.7	3.2	1.6
2018 GDP (estimate in USD million)	55.0	60.0	47.7	5.4	20.0	12.4
2018 GDP per capita (estimate in USD)	26,586	14,637	6,815	8,644	5,704	5,953
2018 inflation rate (estimate in %)	2.1	1.6	2.1	2.8	1.4	1.8
2018 unemployment rate (estimate in %)	5.8	12.0	13.8	14.1*	18.4	21.1

Source: IMF, World Economic Outlook, October 2018, *Agency for Statistics of Montenegro (Q3 2018)



35.4% market share of Triglav Group
Slovenia 1st rank

7.4.1.1 The Slovene insurance market

Despite its small size, the Slovene insurance market is well-developed. On the world scale, Slovenia is ranked 32nd by premium per capita (one rank higher compared to the previous year) and remains 30th by insurance penetration (premium share in GDP). In 2017, the Slovene insurance market maintained its 55th rank in terms of total written premium. It accounts for 0.05% of the global insurance market and is 115 times smaller than the British market, the largest European insurance market (data for 2017).

Premium per capita and market penetration in Slovenia and some other European countries in 2017

	Premium per capita		Insurance penetration	
	(in USD)	World rank	(% of GDP)	World rank
Slovenia	1,192*	32	5.0%*	30
Croatia	333	52	2.5%	51
Serbia	123	65	2.1%	64
Switzerland	6,811	3	8.5%	13
Great Britain	3,810	12	9.6%	8
Austria	2,217	23	4.6%	35
Czech Republic	609	38	2.9%	47
Poland	421	43	3.0%	45
Turkey	149	63	1.4%	72
Europe	1,651	-	6.5%	-
EU	2,429	-	7.2%	-

Source: Swiss RE, SIGMA 3/2018
* Data for Slovenia: Slovenian Insurance Association

Average premium per capita increased to EUR 1,055, which is the same as in 2009 and 2010 when it reached its 10-year peak. In 2017, premium as a percentage of GDP accounted for 5.0%, which is the lowest share in the last ten years.

Insurance market development in Slovenia

Premium per capita (2017 data)	EUR 1,055
Premium as a percentage of GDP (2017 data)	5.0%
Insurance market growth index in 2018	107.7

Source: Slovenian Insurance Association

In the reporting period, 14 insurance companies, 5 foreign branch offices and 2 reinsurance companies were active in the **Slovene insurance market**, all members of the Slovenian Insurance Association (hereinafter: SZZ). In July, Allianz Slovenia, the Allianz Zagreb branch office, joined the Slovenian Insurance Association.

There were 9 composite and 10 specialised insurers (life, health and non-life insurance) among the insurance companies. These data exclude direct insurance transactions of the insurers from other EU Member States (foreign-owned subsidiaries – FOS). Even though their share is growing, it is still negligible. Zavarovalnica Triglav directly operates in all 28 EU Member States.

Gross written premium amounted to EUR 2,364.9 million, which was **7.7% more** than in 2017. **Non-life insurance** grew by 7.0% and accounted for 70% of total premium. Excluding **health insurance**, non-life insurance premium growth would be 7.4%, as its premium growth was slightly lower (6.2%). Non-life insurance premium primarily increased as a result of higher other damage to property insurance, comprehensive car insurance and health insurance. **Life insurance premium** increased by 9.3%, the highest growth (14%) rate was achieved by unit-linked life insurance (including pension insurance).

The Slovene insurance market continues to be characterised by a high degree of concentration as the four largest insurance companies controlled 70.2% of the market. With a 27.9% market share, **Zavarovalnica Triglav** remains the market leader (2017: 28.3%). The second largest market share was held by Zavarovalnica Sava, a company 1.7 times smaller. With a 35.4% market share on the Slovene insurance market, **the Triglav Group** (parent company, Triglav, Zdravstvena zavarovalnica and Skupna pokojninska družba) decreased its market share by 0.2 percentage point over the corresponding period in the preceding year.

The market shares of **the Triglav Group** by segment:

- **non-life insurance** (excluding health insurance): 43.9% (an increase of 0.3 percentage point);
- **life insurance**: 28.9% (a decrease of 2.2 percentage points);
- **health insurance**: 26.5% (an increase of 1.3 percentage point).

The market shares of **Zavarovalnica Triglav** by segment:

- **non-life insurance**: 29.4% (an increase of 0.4 percentage point);
- **life insurance**: 24.4% (a decrease of 2.1 percentage points).

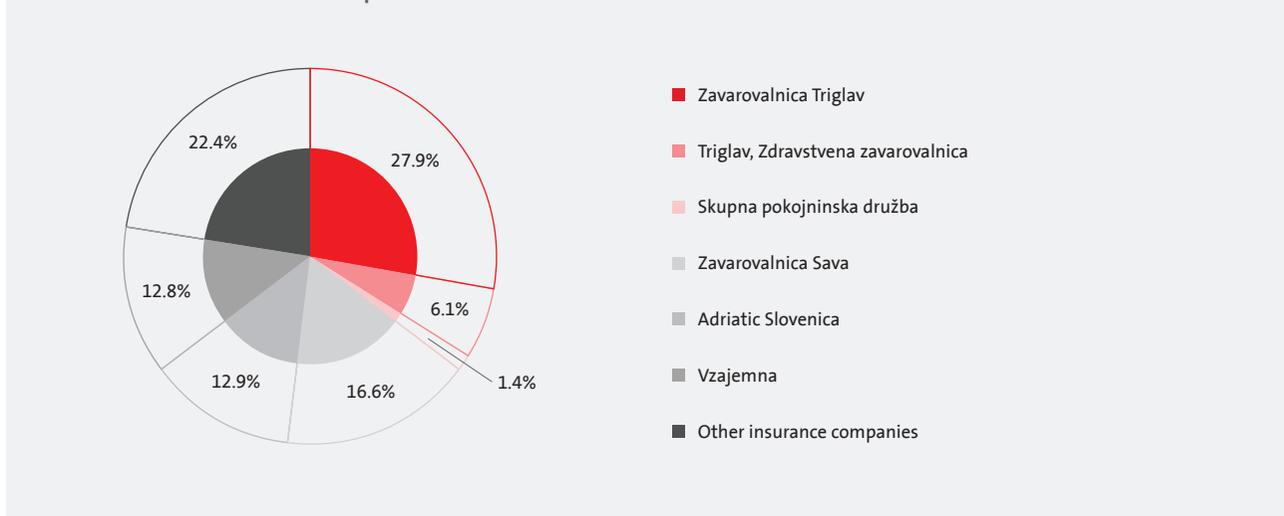
The market share of **Triglav, Zdravstvena zavarovalnica**:

- **health insurance**: 26.4% (an increase of 1.2 percentage point and premium growth of 11.4%, the highest among the top three health insurance providers, which together hold a 98.8% share of the health insurance market).

The market share of **Skupna pokojninska družba**:

- **supplementary voluntary pension insurance (SVPI)**: 19.6% (the leading position; an increase of 0.1 percentage point).

The market share of insurance companies in Slovenia in 2018



Source: Slovenian Insurance Association

7.4.1.2 Croatia

The GDP growth was 2.8%, with GDP growth forecast for 2019 at 2.6%. Economic growth is driven by vigorous global trade, household consumption and investment activity, while government consumption remains under control. The tourist year was very successful, while the real sector shows signs of cooling down. Croatia managed to effectively prevent the crisis caused by Agrokor from spreading; however, its uncertain fate continues to remain a significant risk to the whole economy.

As at the end of Q3 2018, gross government debt decreased to 74.5%. The inflation rate was 1.6%, while the unemployment rate was 12%. The service sector generates 70% of GDP and employs over 70% of the working-age population. The most important service activity is tourism, which is in full bloom. According to forecasts, the number of tourists is expected to increase by 7.8% annually over the next five years. The industrial sector accounts for 26% of GDP and the agricultural sector for 4%. The wood industry continues to remain one of the core economic sectors.

Insurance market

As at the reporting date, as many as 20 insurance companies operated in the Croatian insurance market (9 composite, 7 non-life and 4 life), which was one fewer than in 2017, since Croatia zdravstveno osiguranje was merged to Croatia osiguranje.

Together the insurance companies recorded written premium in the total amount of HRK 9.9 billion (EUR 1.3 billion), which was 8.8% more than in 2017. Non-life insurance and life insurance premiums both increased, by 9.9% and 6.6% respectively. In total written premium, non-life insurance premium further increased to 68.2% (2017: 67.5%) and life insurance accounted for the rest.

Market concentration was high, with top three insurers controlling over 51% of the market. With a 27.9% market share, Croatia osiguranje maintained its leading position (1.0 percentage point less than in the preceding year). Triglav Osiguranje, Zagreb was again ranked ninth with a 4.4% market share.

Insurance market development in Croatia

Premium per capita (2017 data)	EUR 295
Premium as a percentage of GDP (2017 data)	2.5%
Insurance market growth index in 2018	108.8

Source: Swiss RE, SIGMA 3/2018, Croatian Insurance Bureau

4.4% market share of Triglav Group
Croatia 9th rank



7.4.1.3 Serbia

Dynamic domestic demand and openness to trade and foreign investments, position Serbia among the countries with a high market potential. The estimated GDP growth in 2018 was 4.0% as result of high private consumption, growth in construction activities, export and foreign direct investments. The outlook for the coming years is favourable. The estimated inflation rate in 2018 was 2.1%, while in 2019 and 2020 it is estimated at 2.4% and 2.9% respectively. The exchange rate of the Serbian dinar compared with the Euro is stable and is expected to remain so in the next year. The estimated unemployment rate for 2018 is 13.8%.

Insurance market

The Serbian insurance market is characterised by high concentration. The top three insurers (Dunav, Delta Generali and DDOR) control 61% of the market. In 2018, as many as 17 insurance companies were active, of which 6 were composite insurance companies, 7 non-life insurance companies and 4 life insurance companies.

In the first nine months of 2018, total written premium increased by 5.2% to RSD 74.6 billion (EUR 630 million). Non-life insurance products recorded a 4.8% growth, whilst life insurance products grew by 6.4%. In total written premium, non-life insurance accounted for the bulk (77.3%).



Serbia is an EU candidate country and is implementing the required reforms at an accelerated pace. It is faced with the challenges of creating new jobs, promoting competitiveness and increasing economic growth. It adopted certain important economic reforms in order to improve the business environment in the country. Strengthening the rule of law is one of the government's key objectives.

As the most important, the service sector generates 49% of GDP and employs approximately 57% of the working-age population. The industrial sector creates for 42% of GDP and employs nearly 26% of the working-age population. Modernisation and strong foreign investments are needed.

Triglav Osiguranje, Belgrade increased its market share to 6.0% (2017: 5.8%) and maintained its fifth rank. Its growth was higher than the Serbian insurance market growth by 4.2 percentage points.

Insurance market development in Serbia

Premium per capita (2017 data)	EUR 109
Premium as a percentage of GDP (2017 data)	2.1%
Insurance market growth index in 2018 (Q 1-3)	105.2

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

7.4.1.4 Montenegro

The GDP growth for 2018 was expected to be 3.7% and 2.5% in 2019. Montenegro has one of the highest balance of payments deficits in the region. In addition, the fiscal consolidation measures will reduce the growth of both public and private consumption. The VAT rate was increased from 19% to 22%. The unemployment rate was 14.1%, while the inflation rate is expected to reach 2.8% in the 2018–2019 period.

Montenegro’s fiscal deficit for 2018 is estimated at 3.2%, while in 2017 it was more than 5.0%. By 2020, Montenegro is expected to have a budget surplus.

Montenegro began official accession negotiations with the EU already in 2012, therefore the government’s priority is the implementation of market reforms, attracting foreign investors and the development of the private sector. Many reforms need to be carried out, which include commitment to the fiscal discipline, implementation of the voluntary restructuring programme of bank loans, improvement of the business environment and education reform.

The Montenegrin economy is gradually transforming into a market economy; thus far, approximately 90% of state-owned companies have been privatised. The economy mostly depends on tourism and export of metal. Tourism generates around 20% of GDP.

The highest, 70% share of GDP is accounted for by the service sector, which employs over 70% of the working-age population, while the industrial sector (20% of GDP) employs over 21% of the working-age population.

Insurance market

The number of insurers in the insurance market of Montenegro fell to 9 (5 non-life insurers and 4 life insurers), as Atlas Life osiguranje ceased to operate. In the reporting period, the Montenegrin insurers booked EUR 86.8 million, which was 6.2% more than the year before. Life and non-life insurance premiums increased by 7.5% and 5.9% respectively. In total written premium, non-life insurance remained by far the largest segment with an 82.5% market share.

The insurance companies of the Triglav Group **Lovćen Osiguranje** and its subsidiary **Lovćen životna osiguranja** together reached the market share of 37.9% (0.3 percentage point less than in 2017), maintaining the leading position. Lovćen Osiguranje is followed by Uniqa (non-life and life insurance together) with a 15.4% market share and Sava Montenegro with a 14.7% market share.

Insurance market development in Montenegro

Premium per capita (2017 data)	EUR 131
Premium as a percentage of GDP (2017 data)	1.9%
Insurance market growth index in 2018	106.2

Source: Insurance Supervision Agency of Montenegro



7.4.1.5 Bosnia and Herzegovina

In recent years, the economy of Bosnia and Herzegovina has grown relatively fast. The estimated GDP growth in 2018 was 3.2%, resulting from increased export and household consumption. If the favourable conditions in the international environment continue, the economy will grow even faster in 2019,

but the risks of a negative scenario forecast are high. The investment activity will be decisive factor. It depends on external financing, and this is conditional on the IMF financing, which is also questionable due to internal political disagreements. Owing to constant political discord, Bosnia and Herzegovina will have difficulties in achieving sustainable growth in the long term, which would at the same time facilitate stronger progress and higher employment. The credit rating agency Moody's assigned it a »B3« credit rating, whilst S&P Global Ratings a «B« credit rating. Both ratings have a medium-term stable outlook.

The average inflation rate in 2018 was 1.4% and an increase to 1.6% is anticipated in 2019. According to IMF data, the unemployment rate is 18.4%, whereas according to the Employment Service of Bosnia and Herzegovina it is well above 30%.

Bosnia and Herzegovina is a potential EU candidate country, therefore the government strives to increase internal stability and implement reforms to kick-start the economy and increase its competitiveness. The highly decentralised country hinders the coordination of economic policies and reforms, while foreign investors are discouraged by the high level of red tape and the fragmented market. The banking sector, however, is quite reformed. Many foreign banks (mainly Austrian and Italian) have entered the market, which comprise over 85% of the Bosnian banking sector. As a result, businesses have easier access to capital and banking services of higher quality. The privatisation of state-owned enterprises is very slow.



The industrial sector generates 27% of GDP and employs a third of the working-age population. The tertiary sector generates the same share of GDP and employs 66% of the working-age population.

Insurance market

In 2018, the small but highly competitive Bosnian insurance market was marked by mergers of insurers. In the first half of 2018, as many as 26 insurance companies operated in the insurance market of the Federation of BiH, of which 12 are domiciled in the Federation of BiH and 14 in the Republic of Srpska. The insurance companies operating in the insurance market of Bosnia and Herzegovina as a whole collected BAM 358.9 million (EUR 184 million) in written premium, up by 4.7% over the preceding year. In the insurance market of the Federation of BiH, written premium increased by 2.9% and in the Republic of Srpska by 6.5%. In total written premium, non-life insurance premium accounted for 80.6%.

In the Federation of BiH, Agram (Adriatic osiguranje and Euroherc) remained the market leader with a 23.0% market share. With an 8.8% market share, **Triglav Osiguranje, Sarajevo** maintained its seventh rank (a 0.1 percentage point less than in the preceding year) (2018 data).

With a 9.8% market share, Drina osiguranje maintained its leading position in the Republic of Srpska (a 0.8 percentage point less than in the preceding year). With the market share of 5.0% (0.2

percentage point less than the year before), **Triglav Osiguranje, Banja Luka** was ranked ninth (eighth in 2017). The **subsidiary Triglav Osiguranja, Sarajevo**, which only sells life insurance, increased its market share to 0.5% (H1 2017: 0.4%).

In the insurance market of Bosnia and Herzegovina as a whole in H1 2018, **the two insurance companies of the Triglav Group** taken together ranked sixth (fourth place one year earlier) and held an 8.0% market share (0.2 percentage point less than in 2017).

Insurance market development in Bosnia and Herzegovina

Premium per capita (2017 data)	EUR 99
Premium as a percentage of GDP (2017 data)	2.2
Insurance market growth index in 2018 (H1)	104.7

Source: FBiH Insurance Supervision Agency, RS Insurance Agency

7.4.1.6 North Macedonia

A modest 1.6% economic growth is estimated for 2018. The purchasing power of population reaches only around 37% of the EU average. Favourable economic growth forecasts are expected in the coming years. In 2018, North Macedonia and Greece signed a name change agreement, thereby removing an important obstacle to Macedonia's accession to NATO and the EU. The improving situation in the region and higher attractiveness for foreign investors are expected.

Budget deficit remains close to the target value of 3% of GDP but, according to the EC forecast, this objective is threatened by the lack of decisive government action in addition to the increasing social transfers and much needed infrastructure projects.

North Macedonia has a small, open economy, of which further growth depends to a great extent on the progress made in the integration into the EU. The service sector generates 60% of GDP and employs 54% of the working-age population. Its key sectors are transport, telecommunications and energy. The industrial sector including the mining industry accounts for 29% of GDP and employs nearly 30% of the working-age population.

Supported by favourable trends, the unemployment rate, which is still one of the highest in the region at over 20%, will decline.

Insurance market

In 2018, as many as 16 insurance companies were active in the Macedonian insurance market, of which 11 were non-life insurance companies and 5 life insurance companies. Makedonija Osiguruvanje also holds a reinsurance licence. The insurance companies booked MKD 9.9 billion (EUR 161 million) in written premium or 10.4% more than the year before. Life insurance products recorded a high 15.5% growth rate, whilst non-life insurance products grew by 9.4% (83.2% of total written premium). The five largest insurers booked 50% of total written premium. The market concentration was particularly high in the life insurance segment, with Croatia Život and Grawe controlling 77% of the market.

With a 14.4% market share (0.2 percentage point less than in 2017), Triglav Osiguruvanje, Skopje continues to hold the leading position in the Macedonian insurance market. The insurer only sells non-life insurance, holding 17.3% of the non-life insurance market (vs. 17.4% in 2017). It is followed by Eurolink, holding a 10.8% market share, and Osiguruvanje Makedonija (the VIG Group) with a 9.2% market share. Triglav Osiguruvanje Život, Skopje, which was established in 2017, achieved a 1.1% market share in the life insurance market. Both insurers taken together held a 14.5% market share, down by 0.1 percentage point compared to the year before.

Insurance market development in North Macedonia

Premium per capita (2017 data)	EUR 71
Premium as a percentage of GDP (2017 data)	1.5%
Insurance market growth index in 2018	110.4

Source: Insurance Supervision Agency of North Macedonia



14.5% market share of Triglav Group North Macedonia 1st rank

7.5 Gross written premiums from insurance, co-insurance and reinsurance contracts

Higher premium was collected in all business segments in the reporting period. The Triglav Group posted a total of EUR 1,068.4 million in consolidated gross insurance and co-insurance premiums or 7% more than in 2017. Premium by segment:

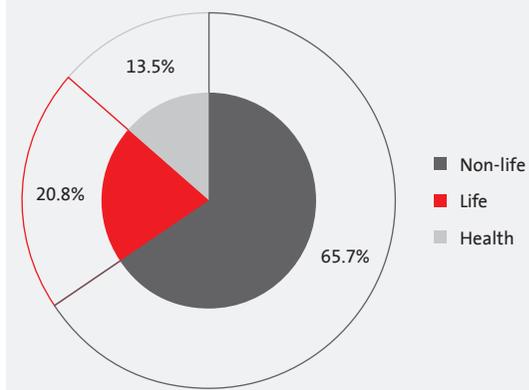
- **non-life insurance:** EUR 702.2 million, index 108;
- **life insurance:** EUR 222.2 million, index 102;
- **health insurance:** EUR 144.0 million, index 111.

The share of non-life and health insurance premiums in total consolidated gross written premium increased, whereas the share of life insurance premium went down:

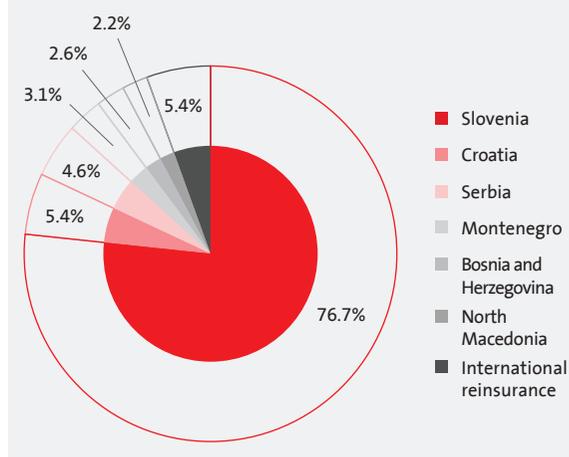
- non-life insurance: 65.7% (in 2017 65.2%);
- life insurance: 20.8% (in 2017 21.8%);
- health insurance: 13.5% (in 2017 12.9%).

The share of the insurance premium earned on the markets outside Slovenia continues to gradually increase. Compared to 2017, it went up by 0.2 percentage point. A total of 76.7% of consolidated gross written premium was charged in the Slovene insurance market, 17.9% of premium was booked in the markets outside Slovenia, while international reinsurance premium accounted for 5.4% of written premium.

Consolidated insurance, co-insurance and reinsurance premiums of the Triglav Group by segment



Consolidated gross written insurance, co-insurance and reinsurance premiums of the Triglav Group by market



Consolidated gross written insurance, co-insurance and reinsurance premiums of the Triglav Group by market

Country	Gross written premium			Index		Structure		
	2018	2017	2016	2018/2017	2017/2016	2018	2017	2016
Slovenia	819,436,864	768,106,145	724,385,060	107	106	76.7%	76.8%	77.4%
Croatia	57,876,297	53,548,115	48,937,278	108	109	5.4%	5.4%	5.2%
Serbia	48,979,893	43,730,967	34,407,999	112	127	4.6%	4.4%	3.7%
Montenegro	32,880,893	31,265,239	31,169,916	105	100	3.1%	3.1%	3.3%
Bosnia and Herzegovina	28,032,889	27,181,479	25,483,087	103	107	2.6%	2.7%	2.7%
North Macedonia	23,438,597	21,358,432	21,555,079	110	99	2.2%	2.1%	2.3%
International reinsurance	57,748,974	54,726,249	50,065,396	106	109	5.4%	5.5%	5.3%
Total	1,068,394,407	999,916,626	936,003,815	107	107	100.0%	100.0%	100.0%

Premium growth was recorded in all insurance markets (see the overview by insurance subsidiary on next page). Insurance subsidiaries of the Triglav Group (excluding the Triglav Re reinsurance) booked EUR 1,029.0 million in non-consolidated gross insurance premiums, or 7% more than the year before.

Gross written insurance, co-insurance and reinsurance premiums in 2018 by insurance company of the Triglav Group

Insurance company	Gross written premium			Index		Structure	
	Non-life	Life	Total	Non-life	Life	Total	2018
Zavarovalnica Triglav*	486,029,951	174,113,761	660,143,712	108	100	106	64.2%
Triglav, Zdravstvena zavarovalnica	144,884,931	0	144,884,931	111	0	111	14.1%
Skupna pokojninska družba	0	32,649,992	32,649,992	0	109	109	3.2%
Triglav Osiguranje, Zagreb	50,150,643	7,725,654	57,876,297	109	101	108	5.6%
Triglav Osiguranje, Sarajevo	16,066,681	6,505,793	22,572,474	101	109	103	2.2%
Lovćen Osiguranje, Podgorica	30,722,331	0	30,722,331	103	0	103	3.0%
Triglav Osiguranje, Belgrade	45,259,815	3,723,633	48,983,448	114	93	112	4.8%
Triglav Osiguranje, Banja Luka	5,540,747	0	5,540,747	104	0	104	0.5%
Triglav Osiguruvanje, Skopje	23,134,397	0	23,134,397	108	0	108	2.2%
Lovćen životna osiguranja, Podgorica	0	2,158,562	2,158,562	0	157	157	0.2%
Triglav Osiguruvanje Život, Skopje	0	304,200	304,200	0	0	0	0.0%
Total	801,789,496	227,181,595	1,028,971,091	109	102	107	100.0%
Pozavarovalnica Triglav Re	131,170,639	0	131,170,639	106	0	106	
Consolidation eliminations	-86,728,228	-5,019,095	-91,747,323	110	121	110	
Total consolidated	846,231,907	222,162,500	1,068,394,407	108	102	107	

* Data already include pre-consolidation adjustments.

7.5.1 Non-life insurance

In non-life insurance, the Triglav Group charged EUR 801.8 million of non-consolidated insurance and co-insurance premiums, which represented a significant growth of 9%.

In total written premium, **motor vehicle insurance** remained the largest insurance class with a 29.5% share. The Triglav Group insurance subsidiaries collected EUR 141.0 million in **comprehensive car insurance** premium or 12% more compared to 2017. Most insurance subsidiaries recorded premium growth mainly through effective sales campaigns, intensified sales activities and winning new clients. The strongest growth was recorded by Triglav Osiguranje, Belgrade (index 132) and Triglav Osiguranje, Zagreb (index 118). Such a good result of 11% growth recorded by the parent company (84% share of total premium) is a reflection of effective sales activities (especially of the “Together in Action” Vignette sales campaign and “Free Time”), the redesign of motor vehicle insurance tariffs and the increased number of sold insurance policies. Premium was lower in Triglav Osiguranje, Sarajevo by 1% (loss of premium of some major policyholders and a lower scope of cooperation with brokers) and Triglav Osiguruvanje, Skopje (higher discounts on roadworthiness tests and lower sale of new cars).

The Group collected EUR 163.0 million in **motor liability insurance** premium, up by 5% compared to the preceding year. This insurance class continues to account for the largest share on the markets outside Slovenia. In motor liability insurance, almost all insurance subsidiaries of the Group experienced premium growth (excluding Triglav Osiguranje, Sarajevo, which maintained the 2017 premium figure). The highest premium growth of 9% was recorded by Triglav Osiguranje, Belgrade. Zavarovalnica Triglav, accounting for 57% share of total motor liability insurance premium, recorded a 6% growth in written premium.

In the **real property insurance** class (fire and natural disaster insurance and other damage to property insurance) a premium of EUR 196.5 million was booked, having increased by 13%. In fire and natural disaster insurance, a premium growth of 3% was recorded, while in other damage to property insurance a 20% premium growth was seen. The strongest increase in written premium was observed in Triglav Osiguruvanje, Skopje (122) and Triglav Osiguranje, Belgrade (index 116), which resulted from the acquisition of new policyholders and the increased scope of insurance coverage with certain existing policyholders, whilst high growth recorded by the Serbian insurer was mostly a result of the higher volume of fronting arrangements. A high premium

increase of 9% was posted by Triglav Osiguranje, Zagreb (crop insurance premium growth), whilst the parent company recorded a high premium increase of 14%, which accounted for 80% of the Group’s total premiums. In the parent company, the acquisition of new clients and projects, the increased scope of insurance coverage were the main causes of high growth in combined non-life insurance, machinery breakdown insurance in the power industry, erection insurance and mobile phone insurance. The high growth in crop insurance policies was the result of the higher number of concluded insurance policies for permanent crops and the higher proportion of the Government’s co-financing in fruit-growing, wine-growing, hop-growing and agriculture. In contrast, a decrease in premium due to the loss of some major policyholders was recorded by Triglav Osiguranje, Sarajevo and Triglav Osiguranje, Banja Luka.

Such a good result of 13% growth was recorded in **health insurance**, where the Triglav Group wrote EUR 149.7 million in premiums. Triglav, Zdravstvena zavarovalnica generated the largest portion of the premium amounting to EUR 144.9 million, thus achieving an 11% growth. The bulk of its written premium stems from supplemental health insurance, where the increased number of concluded insurance policies (cooperation with new agencies) and the premium increase on 1 May 2018 were the key main reasons for an increase. It was also successful in marketing additional health insurance products. Most other insurance subsidiaries selling health insurance products also recorded a high premium growth.

In **general liability insurance**, the Triglav Group recorded a 5% premium growth or EUR 45.6 million in nominal terms. In general liability insurance, 83% of total is accounted for by the parent company. Zavarovalnica Triglav charged 7% more premium than in 2017, primarily as the result of the high growth recorded in product liability insurance, building contractors liability insurance and liability of management and supervisory board insurance. A strong increase in premiums written was observed in Triglav Osiguranje, Banja Luka and Triglav Osiguranje, Zagreb, due to acquiring new policyholders and increasing the scope of insurance coverage with existing policyholders.

Accident insurance represented 3.9% of total written premium or EUR 39.7 million in nominal terms. The premiums were 2% lower than one year earlier. The largest drop in premium was

recorded by Triglav Osiguruvanje, Skopje (index 83) due to the transfer of the key person insurance premium to the life insurer and a non-renewal/subsequent renewal of certain key person insurance policies. Zavarovalnica Triglav, accounting for 66% of the Group's total premium, recorded a 3% decline in written premium, primarily as the result of two insurance sub-classes taken out simultaneously with motor vehicle insurance (the driver's bodily injury insurance or AO-plus insurance and driver and passenger accident insurance) due to a reduction in premium rates as well as on account of a lower premium from accident insurance for children and pupils. A high growth was achieved by the Sarajevo insurer (index 129) by attracting new policyholders and increasing the scope of insurance coverage with existing policyholders in relation to group accident insurance.

The premium in the **credit insurance** totalled EUR 26.8 million, accounting for 2.6% of the Group's total premium, and remained at the same level as in 2017 (index 100). Zavarovalnica Triglav, which accounted for 95% of total premium, recorded a 2% decrease in written premium. The decline in premium was primarily the result of lower consumer loan insurance premium (with a 54% share it is the most important credit insurance subclass) as well as a lower premium from unemployment, disability and whole life insurance (marketed by banks as an additional product taken out simultaneously with consumer and housing loans). Less premium in consumer loan insurance resulted from a revised credit policy of two major policyholders. Other insurance subsidiaries of the Group selling this insurance class recorded a high growth.

Premium from **other non-life insurance** (accounting for 3.8% of total premium) increased by 5% to EUR 39.4 million. High premium growth was recorded by most insurance companies, the largest by Triglav Osiguruvanje, Skopje (index 129) and Triglav Osiguranje, Belgrade (index 124). The highest growth was recorded by the Macedonian insurer foremost as the result of new concluded policies and higher volume of existing policies of miscellaneous financial loss insurance, whilst by the Serbian insurer mainly as the result of the higher volume of fronting arrangements in miscellaneous financial loss insurance and the higher number of concluded assistance insurance policies. A high premium growth was observed in Triglav Osiguranje, Banja

Luka (the higher volume of fronting arrangements in goods in transit insurance and higher sales volumes of health insurance for travel) and Triglav Osiguranje, Zagreb (higher sales volumes of marine insurance). Zavarovalnica Triglav, accounting for 69% of total premium, booked 1% more written premium compared to the preceding year. However, a lower premium was booked by Lovćen Osiguranje (a drop in aircraft insurance premium of a major policyholder and lower premium volume from goods in transit insurance).

7.5.2 Life insurance

In total, Triglav Group insurance companies charged EUR 227.2 million in non-consolidated gross written premium from **life insurance** contracts, which is 2% more over 2017. This accounted for 22.1% of total gross written premiums, which was 1.1 percentage point lower than as at the 2017 year-end.

Life insurance premium (traditional life insurance, annuity insurance, pension insurance and voluntary pension insurance), which amounted to EUR 98.7 million and accounted for 43.5%

of the life insurance class total, remained at approximately the same level as in the preceding year (index 100). The parent company recorded a 1% premium decrease (an 84% share), resulting from reduced premiums paid-in and lower retained sums paid out on maturity. A decrease in premium written was observed in Triglav Osiguranje, Zagreb and Triglav Osiguranje, Belgrade. In contrast, premium growth was recorded in Triglav Osiguranje, Sarajevo (index 109), and in Lovćen životna osiguranja (index 175) due to the increased number of sold insurance policies.

The premiums generated by **unit-linked life insurance** (life insurance linked to the units of investment funds, including pension insurance), rose by 6% compared to the preceding year. With EUR 111.7 million they represented 49.2% of the total life insurance premium. The 4% premium growth achieved by the parent company is primarily the result of higher regular premium paid-ins, additional paid-ins, transfer of assets and improved result of retained sums paid out on maturity. Skupna pokojninska družba (higher number of transfers from other insurance providers) and Triglav Osiguranje, Zagreb (higher number of new insurance policies) recorded premium growth.

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

Insurance class	Gross written premium			Index		Structure
	2018	2017	2016	2018/2017	2017/2016	2018
Accident insurance	39,686,378	40,355,334	41,671,957	98	97	3.9%
Health insurance	149,749,316	133,059,981	116,659,358	113	114	14.6%
Comprehensive car insurance	141,013,328	126,375,942	116,458,632	112	109	13.7%
Real property insurance	196,458,671	173,951,099	158,341,649	113	110	19.1%
Motor liability insurance	163,017,829	155,140,020	151,681,723	105	102	15.8%
General liability insurance	45,614,375	43,344,456	40,817,326	105	106	4.4%
Credit insurance	26,807,158	26,841,774	24,773,871	100	108	2.6%
Other non-life insurance	39,442,439	37,730,426	32,666,874	105	116	3.8%
Non-life insurance	801,789,494	736,799,032	683,071,390	109	108	77.9%
Life insurance	98,726,660	98,518,498	96,907,948	100	102	9.6%
Unit-linked life insurance	111,706,354	105,851,192	103,867,238	106	102	10.9%
Capital redemption insurance*	16,748,583	18,070,394	15,041,116	93	120	1.6%
Life insurance	227,181,597	222,440,084	215,816,302	102	103	22.1%
Total	1,028,971,091	959,239,116	898,887,692	107	107	100.0%

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

Capital redemption insurance (supplemental voluntary pension insurance) generated EUR 16.7 million or 7.4% of the total life insurance premium. The 7% decrease was the result of smaller transfers of funds from other collective pension schemes of supplemental voluntary pension insurance provided by other managers to the collective supplemental voluntary pension insurance scheme of the parent company.

Gross written insurance, co-insurance and reinsurance premiums of Zavarovalnica Triglav by insurance class

Insurance class	Gross written premium			Index		Structure
	2018	2017	2016	2018/2017	2017/2016	2018
Accident insurance	26,173,583	27,032,366	28,798,922	97	94	4.0%
Health insurance	692,746	486,415	422,483	142	115	0.1%
Comprehensive car insurance	118,662,442	106,632,936	97,783,723	111	109	18.0%
Real property insurance	157,967,652	138,883,785	126,533,514	114	110	23.9%
Motor liability insurance	92,416,996	87,528,335	87,328,336	106	100	14.0%
General liability insurance	37,671,614	35,174,509	33,196,250	107	106	5.7%
Credit insurance	25,456,965	26,094,675	24,622,038	98	106	3.9%
Other non-life insurance	27,054,464	26,662,620	24,174,786	101	110	4.1%
Non-life insurance	486,096,462	448,495,641	422,860,052	108	106	73.6%
Life insurance	81,164,340	82,276,487	83,319,257	99	99	12.3%
Unit-linked life insurance	76,201,048	73,128,814	71,908,586	104	102	11.5%
Capital redemption insurance	16,748,583	18,070,394	15,041,116	93	120	2.5%
Life insurance	174,113,971	173,475,695	170,268,959	100	102	26.4%
Total	660,210,433	621,971,336	593,129,011	106	105	100.0%

7.5.3 Gross reinsurance written premiums of Pozavarovalnica Triglav Re

Pozavarovalnica Triglav Re saw higher volume of its operations and an increase in gross reinsurance premium. As a result, it posted a total of EUR 131.2 million in gross written reinsurance premium, up by 6% compared to the year before. The highest growth was recorded in other damage to property insurance (high growth of operations outside the Triglav Group), comprehensive car insurance and health insurance (operations within the Triglav Group).

In the operations outside of the Triglav Group, Pozavarovalnica Triglav Re achieved an 8% growth of EUR 57.0 million in nominal terms mostly by concluding new contracts, the highest in the markets of Benelux, Great Britain, Central Europe (Czech Republic, Poland, Austria) and Italy. Transactions with the Triglav Group experienced a 5% premium growth.

7.6 Gross claims paid

In the reporting year, the consolidated gross claims of the Triglav Group (including claim handling costs and subrogation receivables) were 6% higher over the previous year or EUR 697.6 million in nominal terms. Gross claims paid in **non-life insurance**, the largest insurance segment, equalled EUR 391.2 million or 13% more than in the previous year. The increase of gross claims paid of 13% was also seen in **health insurance**, amounting to EUR 119.1 million, whilst only gross claims paid from **life insurance** recorded a decrease of 11%, amounting to EUR 169.2 million.

The Triglav Group insurance companies (excluding Pozavarovalnica Triglav Re) posted a total of EUR 663.2 million in non-consolidated gross claims paid, up by 7% compared to the preceding year. High growth in gross claims was posted by majority of insurance companies, the highest by Lovćen Osiguranje (38%) and Triglav Osiguranje, Zagreb (23%).

Gross claims paid in 2018 by insurance company of the Triglav Group

Insurance company	Gross claims paid			Index		Structure	
	Non-life	Life	Total	Non-life	Life	Total	2018
Zavarovalnica Triglav*	272,218,985	148,754,692	420,973,677	113	87	102	63.5%
Triglav, Zdravstvena zavarovalnica	119,139,894	0	119,139,894	113	0	113	18.0%
Skupna pokojninska družba	0	12,676,218	12,676,218	0	110	110	1.9%
Triglav Osiguranje, Zagreb	38,657,395	5,894,306	44,551,701	128	97	123	6.7%
Triglav Osiguranje, Sarajevo	8,769,169	2,166,813	10,935,982	110	98	107	1.6%
Lovćen Osiguranje, Podgorica	21,962,740	0	21,962,740	138	0	138	3.3%
Triglav Osiguranje, Belgrade	15,493,559	2,755,409	18,248,968	109	200	117	2.8%
Triglav Osiguranje, Banja Luka	1,766,446	0	1,766,446	114	0	114	0.3%
Triglav Osiguruvanje, Skopje	11,605,231	0	11,605,231	113	0	113	1.7%
Lovćen životna osiguranja, Podgorica	0	1,171,098	1,171,098	0	118	118	0.2%
Triglav Osiguruvanje Život, Skopje	0	151,651	151,651	0	0	0	0.0%
Total	489,613,419	173,570,187	663,183,606	115	90	107	100.0%
Pozavarovalnica Triglav Re	69,994,751		69,994,751	123	0	123	
Consolidation eliminations	-49,255,780	-4,322,359	-53,578,139	164	121	159	
Total - consolidated	510,352,390	169,247,828	679,600,218	113	89	106	

* Data already include the pre-consolidation adjustments.

7.6.1 Non-life insurance

Non-consolidated gross claims paid in **non-life insurance** increased by 15% to EUR 489.6 million. The high increase in claims paid in non-life insurance primarily resulted from the higher volume of operation in recent years and higher claim payments arising from major CAT events of the previous year for which adequate provisions were made and which were appropriately reinsured [-> see Section 7.2 *Environmental impact on the performance of the Triglav Group for more details*].

Movement in gross claims paid by insurance class is shown below.

In **health insurance** gross claims increased by 14% to EUR 121.4 million, accounting for 18.3% of total gross claims. Triglav, Zdravstvena zavarovalnica collected the majority of claims, i.e. EUR 119.1 million in insurance premiums, which is 13% more than last year. The increase in the number of insured persons and their changed age structure, which is nearing the Slovene average, resulted in higher average claims paid. The rise in gross claims paid was also affected by medical inflation, whilst equalisation scheme expenses (index 99) slightly decreased to EUR 6.2 million due to the changed age structure of policyholders.

In **real property insurance**, total claims paid amounted to EUR 111.8 million or as much as 32% more than the year before, accounting for 16.9% of total gross claims paid. In fire and natural disaster insurance, a 34% increase in gross claims was seen, along with a 32% growth in other damage to property insurance. Zavarovalnica Triglav, holding a 71% share of this insurance class, recorded a 16% increase. The main reasons were the payments of claims from fire insurance (a substantial claim due to fire, this year's substantial claims due to hail and last year's claims due to wind storms), combined non-property insurance (the payment of substantial claims from fronting operations insurance, substantial claims due to the last year's flood from inward reinsurance and claims due to fire and claims arising from telecommunication network due to storm), property and interest in property insurance for natural persons due to natural disasters (hailstorms and floods) and construction insurance (two substantial claims arising from fronting operations insurance). High growth rates in gross claims paid were also recorded by Lovćen Osiguranje (the payment of substantial claim due to fire), Triglav Osiguranje, Zagreb (the payment of substantial individual claims from fronting insurance and the payment of claims due to last year's drought), Triglav Osiguranje, Sarajevo (the payment of some substantial

individual fire insurance claims and the payment of a substantial claim due to flood from past years), Triglav Osiguruvanje, Skopje (payment of crop damage caused by hail and the payment of substantial individual claims) and Triglav Osiguranje, Belgrade (the payment of substantial claims resulting from fire and flood).

Gross claims paid from **comprehensive car insurance** rose by 7% to EUR 93.9 million. They accounted for 14.2% of total gross claims paid by the Group. Significant increases in gross claims paid were, which were posted by Triglav Osiguranje, Belgrade (index 120), Triglav Osiguranje, Zagreb (index 115) and parent company (index 107), resulted from a larger portfolio, whereas in the parent company (accounting for 84% of the Group's total comprehensive car insurance claims) growth was also a result of higher average material claims (higher cost of services and expensive equipment installed in vehicles). Gross claims paid declined in Triglav Osiguranje, Banja Luka and Triglav Osiguruvanje, Skopje.

Claims related to **motor liability insurance** increased by 7%. They represented 14.1% of total gross claims settled by the Triglav Group, amounting to EUR 93.4 million. Gross claims growth was recorded by most insurance companies, the largest by Triglav Osiguranje, Banja Luka (index 133) and Triglav Osiguruvanje, Skopje (index 117), as a consequence of higher number of reported claims and payments of substantial individual claims. Gross claims paid by the parent company, which accounted for 66% of gross claims paid by the Group in this insurance class, reached a 7% growth resulting from the higher number of reported claims and higher average claims. The highest drop in gross claims paid was recorded by Triglav Osiguranje, Sarajevo (lower number of reported claims) and Triglav Osiguranje, Belgrade (lower claim payments than in 2017).

Claims from **accident insurance** increased by 3%, amounting to EUR 23.6 million. This growth was to a large degree caused by a high growth in gross claims paid by Zavarovalnica Triglav due to the increase in payments relating to AO-plus insurance, individual accident insurance and accident insurance of consumers and subscribers. Volume growth in gross claims paid was seen in Triglav Osiguranje, Sarajevo (higher payments of group accident insurance claims) and Triglav Osiguranje, Banja Luka (a higher number of reported claims).

Gross claims paid in **general liability insurance** amounted to EUR 18.4 million or 24% more than the year before. Gross claims paid by the parent company, which accounted for 92% of gross claims paid by the Group in this insurance class, reached a 28% growth resulting from the payments of some substantial individual claims in product liability insurance. In addition, the high growth in gross claims paid was posted by Triglav Osiguranje, Belgrade (the payment of a substantial freight forwarder liability insurance claim).

Gross claims paid from **credit insurance** rose by 35% to EUR 3.9 million. Zavarovalnica Triglav (index 139), recorded a high increase in claims, accounting for a the bulk of this insurance class (95%). A significant increase resulted mostly from higher payments from export receivable insurance (higher number of reported claims due to larger portfolio) and overdraft insurance.

Gross claims paid from **other non-life insurance** went up by 22% to EUR 23.2 million. Zavarovalnica Triglav, holding a 82% share of this insurance class, recorded a 42% growth, primarily resulting from higher gross claims paid from railway insurance (the payment of two substantial claims due to train crash), miscellaneous financial loss insurance (higher claims paid from business interruption insurance) and assistance insurance (more claims in roadside assistance insurance). High growth rates in gross claims paid were also recorded by Lovćen Osiguranje (the payment of a substantial aircraft insurance claim from the previous year, the payment of a substantial marine insurance claim and higher roadside assistance insurance claims), Triglav Osiguranje, Belgrade (a higher number of reported roadside assistance insurance claims and the payment of a substantial claim from miscellaneous financial loss insurance), Triglav Osiguranje, Skopje and Triglav Osiguranje, Banja Luka (the payment of substantial claims from health insurance for travel).

7.6.2 Life insurance

Non-consolidated gross claims paid from **life insurance** declined by 10% to EUR 173.6 million. Their share in total non-consolidated claims paid fell by 5.0 percentage points to 26.2%.

The bulk of total claims paid was accounted for by **life insurance** (traditional life, annuity, annuity pension and voluntary pension insurance), having increased by 1% to EUR 92.5 million. A high growth rates in gross claims paid were posted by Triglav Osiguranje, Belgrade (higher number of claims paid), Triglav Osiguranje, Zagreb (higher sums paid out on maturity) and Lovćen životna osiguranja (higher payments of substantial claims due to a death and surrenders). Zavarovalnica Triglav recorded a 1% decrease in gross claims paid primarily due to reduced payments arising from maturities and surrenders of insurance policies.

Gross claims paid from **unit-linked life insurance** (including pension insurance) amounted to EUR 75.2 million or 22% less than the year before. Lower gross claims paid primarily resulted from the decrease in sums paid out on maturity in both Zavarovalnica Triglav (index 74) and Triglav Osiguranje, Zagreb (index 63). Gross claims paid by Skupna pokojninska družba rose by 10% due to due to larger payments and withdrawals from insurance contracts.

Gross claims paid from **capital redemption insurance** (supplemental voluntary pension insurance) increased by 10%, mainly due to higher payments stemming from insurance transfers and payments due to accidents in the parent company.

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

Insurance class	Gross claims paid			Index		Structure
	2018	2017	2016	2018/2017	2017/2016	2018
Accident insurance	23,608,780	23,019,389	22,639,484	103	102	3.6%
Health insurance	121,356,577	106,519,452	94,651,607	114	113	18.3%
Comprehensive car insurance	93,863,228	87,626,067	85,351,958	107	103	14.2%
Real property insurance	111,847,394	84,422,815	73,796,966	132	114	16.9%
Motor liability insurance	93,438,289	87,670,650	79,535,216	107	110	14.1%
General liability insurance	18,430,832	14,880,210	14,712,114	124	101	2.8%
Credit insurance	3,881,949	2,871,513	3,646,000	135	79	0.6%
Other non-life insurance	23,186,370	18,996,651	20,690,894	122	92	3.5%
Non-life insurance	489,613,419	426,006,747	395,024,239	115	108	73.8%
Life insurance	92,472,985	91,119,134	92,946,327	101	98	13.9%
Unit-linked life insurance	75,211,711	96,537,828	83,944,181	78	115	11.3%
Capital redemption insurance	5,885,491	5,365,889	8,059,245	110	67	0.9%
Life insurance	173,570,187	193,022,851	184,949,753	90	104	26.2%
Total	663,183,606	619,029,598	579,973,992	107	107	100.0%

* According to the definition of the Insurance Supervision Agency, gross claims paid of 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
	2018	2017	2016	2018/2017	2017/2016	2018
Accident insurance	13,893,520	13,035,715	13,065,160	107	100	3.3%
Health insurance	141,362	20,464	1,679	691	1,219	0.0%
Comprehensive car insurance	78,121,265	73,168,562	71,787,832	107	102	18.6%
Real property insurance	79,094,590	67,908,280	58,310,544	116	116	18.8%
Motor liability insurance	61,265,319	57,003,661	52,673,278	107	108	14.6%
General liability insurance	16,915,196	13,194,829	12,714,091	128	104	4.0%
Credit insurance	3,701,849	2,660,748	3,623,690	139	73	0.9%
Other non-life insurance	19,114,790	13,427,908	15,444,891	142	87	4.5%
Non-life insurance	272,247,891	240,420,167	227,621,165	113	106	64.7%
Life insurance	81,883,672	82,932,299	86,948,252	99	95	19.4%
Unit-linked life insurance	60,985,528	82,587,169	68,607,658	74	120	14.5%
Capital redemption insurance	5,885,491	5,365,889	8,059,245	110	67	1.4%
Life insurance	148,754,691	170,885,357	163,615,155	87	104	35.3%
Total	421,002,582	411,305,524	391,236,320	102	105	100.0%

7.6.3 Gross claims paid by Pozavarovalnica Triglav Re

Gross claims paid from reinsurance contracts by Pozavarovalnica Triglav Re totalled EUR 70.0 million or 23% more compared to the previous year. In operations within the Group (due to major CAT events) as well as in operations outside of the Group (higher claims due to the larger portfolio), the high increase was primarily a result of the high growth of gross claims paid in fire insurance and natural disaster insurance. In operations both within and outside the Group, a 30% and 16% growth in gross claims paid was observed respectively.

7.7 Gross operating expenses

Total consolidated gross operating expenses of the Triglav Group totalled EUR 288.8 million, having increased by 5% over the preceding year. **Insurance business expenses** grew by 5% to EUR 261.7 million. Increased expenses were mostly caused by higher acquisition costs due to premium growth. **Non-insurance business expenses** equalled EUR 27.2 million or 6% more than in 2017.

Operating expenses of insurance business accounted for 24.5% of consolidated gross written premiums, which was

0.4 percentage point less compared to the preceding year. Operating expenses by insurance class increased; in **non-life insurance** by 5% (EUR 209.2 million), in the **life-insurance** segment by 4% (EUR 37.7million) and in **health insurance** they grew by 17% (EUR 14.8 million).

Acquisition costs (fees and charges) increased by 15% to EUR 50.1 million, mostly due to higher acquisition costs of Triglav, Zdravstvena zavarovalnica, Zavarovalnica Triglav, Triglav Osiguranje, Belgrade and Triglav Osiguranje, Zagreb. In Triglav, Zdravstvena zavarovalnica, they rose substantially as a result of higher commissions and higher costs of sales promotion campaigns (increased volume of concluded insurance contracts and a new way of rewarding new policyholders). Increased acquisition costs of the parent company were mainly caused by higher underwriting commissions paid to insurance brokers (insurance brokers, agencies and providers of roadworthiness tests) due to premium growth as well as increasing inclusion of insurance brokers into the process of insurance acquisition. Growth of acquisition costs was also caused by higher costs of marketing campaigns and sales promotion activities. Acquisition costs of the Serbian and Croatian insurance companies were up as a result of higher fees and commissions due to strong premium

growth. The costs of goods sold dropped to EUR 53 thousand (index 23). An 8% growth in depreciation costs (amounting to EUR 14.3 million) primarily resulted from higher depreciation costs of computer equipment in the parent company due to the purchases of new software, computer hardware and servers.

With 47.8%, labour costs again accounted for the largest portion of total expenses, totalling EUR 146.6 million, up by 3% compared to the year before. This increase is primarily a result of the higher number of employees in Triglav Osiguranje, Belgrade, Triglav, Zdravstvena zavarovalnica as well as due to higher other labour costs of the parent company. Costs of services provided by natural persons other than sole proprietors increased due to media buying services of Triglav Osiguranje, Belgrade. Other operating expenses increased by 3%, reaching EUR 93.1 million. Among them, the highest increase was recorded in costs of rent and lease payments (mostly due to rental costs of software, lease costs of data lines, services and equipment and operating lease for cars in the parent company) and in non-income-related costs, excluding insurance (dividend tax in Triglav INT and a ground rent of Triglav Osiguranje, Belgrade), followed by higher costs of material and energy (mainly due to higher costs of small inventory for insurance activities and electricity and costs of professional training services).

In total gross operating expenses broken down by functional group, acquisition costs increased to 60.9% over the preceding year (59.6%). Claim handling costs and other operating expenses were down to 9.8% (a decrease of 0.4 percentage point) and 28.4% (2017: 29.3%) respectively. With a 0.9% share, asset management costs remained unchanged.

Gross operating expenses of the Triglav Group by nature

Operating expenses by nature	Gross operating expenses			Index		Structure
	2018	2017	2016	2018/2017	2017/2016	2018
Acquisition costs (fees and charges)	50,066,326	43,571,169	42,724,005	115	102	16.3%
Costs of goods sold	52,904	230,774	10,273,611	23	2	0.0%
Depreciation of operating assets	14,264,627	13,222,256	13,015,136	108	102	4.6%
Labour costs	146,572,719	142,350,871	140,524,957	103	101	47.8%
- wages and salaries	101,612,962	98,913,028	97,854,815	103	101	33.1%
- social security and pension insurance costs	23,640,837	22,890,436	22,618,667	103	101	7.7%
- other labour costs	21,318,920	20,547,407	20,051,475	104	102	6.9%
Costs of services provided by natural persons other than SPs, including related taxes	2,756,994	1,019,815	1,141,593	270	89	0.9%
Other operating expenses	93,062,955	90,569,729	85,963,556	103	105	30.3%
- costs of entertainment, advertising, trade shows	22,174,825	22,133,067	18,359,495	100	121	7.2%
- costs of material and energy	8,232,171	7,608,524	8,398,156	108	91	2.7%
- maintenance costs	14,126,532	14,134,554	13,351,914	100	106	4.6%
- reimbursement of labour-related costs	5,483,902	5,395,372	5,397,007	102	100	1.8%
- costs of intellectual and personal services	5,620,509	5,782,774	5,091,816	97	114	1.8%
- non-income related costs, excluding insurance	3,492,721	3,126,976	3,273,907	112	96	1.1%
- costs of transport and communication services	5,499,061	5,180,429	5,018,286	106	103	1.8%
- costs for insurance premiums	1,843,152	1,620,212	1,764,757	114	92	0.6%
- payment transaction costs and banking services	7,344,413	7,280,330	6,998,942	101	104	2.4%
- rents	7,919,477	7,154,264	7,086,596	111	101	2.6%
- costs of professional training services	1,141,933	881,851	783,577	129	113	0.4%
- other costs of services	10,175,371	10,271,234	10,438,107	99	98	3.3%
- long-term employee benefits	8,888	142	996	6,259	14	0.0%
Total	306,776,525	290,964,614	293,642,858	105	99	100.0%
Consolidation eliminations	-17,950,309	-16,919,317	-16,584,818	106	102	
Total consolidated	288,826,216	274,045,297	277,058,040	105	99	

Performance
of the
Triglav
Group and
Zavarovalnica
Triglav

Business
Report

Risk
Management

Accounting
Report

Table
of Contents

The Triglav
Group and
Zavarovalnica
Triglav d.d.
Annual Report
2018

Gross operating expenses of Zavarovalnica Triglav by nature

Operating expenses by nature	Gross operating expenses			Index		Structure
	2018	2017	2016	2018/2017	2017/2016	2018
Acquisition costs (fees and charges)	27,174,986	24,322,707	24,173,928	112	101	15.6%
Depreciation of operating assets	9,603,035	8,759,768	8,212,728	110	107	5.5%
Labour costs	96,407,086	94,573,784	93,223,604	102	101	55.3%
- wages and salaries	68,211,089	67,346,222	66,756,304	101	101	39.1%
- social security and pension insurance costs	11,730,443	11,476,946	11,289,520	102	102	6.7%
- other labour costs	16,465,554	15,750,615	15,177,780	105	104	9.4%
Costs of services provided by natural persons other than SPs, including related taxes	339,137	277,655	201,267	122	138	0.2%
Other operating expenses	40,898,606	39,810,842	38,735,691	103	103	23.4%
- costs of entertainment, advertising, trade shows	8,712,404	8,816,687	8,516,499	99	104	5.0%
- costs of material and energy	3,606,749	3,237,214	3,595,579	111	90	2.1%
- maintenance costs	8,869,488	9,358,251	8,833,688	95	106	5.1%
- reimbursement of labour-related costs	3,306,295	3,351,434	3,189,444	99	105	1.9%
- costs of intellectual and personal services	2,246,162	2,279,967	1,928,839	99	118	1.3%
- non-income related costs, excluding insurance	1,523,919	1,510,185	1,599,092	101	94	0.9%
- costs of transport and communication services	3,210,568	2,895,170	2,869,566	111	101	1.8%
- costs for insurance premiums	1,093,184	886,868	924,169	123	96	0.6%
- payment transaction costs and banking services	1,602,370	1,540,592	1,751,264	104	88	0.9%
- rents	3,303,744	2,799,533	2,585,575	118	108	1.9%
- costs of professional training services	632,487	447,741	447,540	141	100	0.4%
- other costs of services	2,791,236	2,687,200	2,494,436	104	108	1.6%
Total	174,422,850	167,744,757	164,547,218	104	102	100.0%

Performance
of the
Triglav
Group and
Zavarovalnica
Triglav

Business
Report

Risk
Management

Accounting
Report

Table
of Contents

The Triglav
Group and
Zavarovalnica
Triglav d.d.
Annual Report
2018

7.8 Risk equalisation

7.8.1 Insurance technical provisions

The Triglav Group equalised 90% 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 Group's own equalisation capacities, claims were covered with the current annual inflow of technical premium by insurance class and the insurance technical provisions formed.

Gross insurance technical provisions are the basis for balanced operations and ensure the long-term safety of insured persons. As at the year end, the Triglav Group formed gross insurance technical provision in the amount of EUR 2,713.1 million, down by 1% compared to the year before. In **non-life insurance**, the amount of gross insurance technical provisions remained at a level approximately equal to the 2017 year-end (index 100), whereas in **life** (index 99) and **health insurance** (index 93) it decreased.

Provisions by type as at 31 December 2018 compared to 31 December 2017:

- Gross provisions for unearned premium** were 8% higher and amounted to EUR 300.2 million. Unearned premium from non-life insurance increased by the same rate (index 108), whilst unearned premium from life insurance declined to EUR 414 thousand (index 97) and from health insurance rose to EUR 2.8 million (index 112). The movement of gross unearned premium corresponds to the movement and duration of gross written premium and the nature of underwritten risks.
- Gross claims provisions** fell by 4% and amounted to EUR 614.9 million. Claims provisions from non-life insurance totalled EUR 584.5 million (index 96), those from life insurance equalled EUR 20.6 million (index 106) and those from health insurance amounted to EUR 9.9 million (index 99). Gross claims provisions are formed for covering claims incurred but not settled by the end of the accounting period. The amount of claims provisions was also influenced by the favourable development of claims provisions in previous years and the payment of mass claims incurred at the end of 2017 form claims provision.
- Mathematical provisions** decreased by 1% and amounted to EUR 1,759.8 million. Mathematical provisions for life insurance totalled EUR 1,357.2 million (index 102), while insurance technical provisions for unit-linked life insurance contracts equalled EUR 402.6 million (index 90). Mathematical provisions of **Zavarovalnica Triglav** were 3% lower and amounted to EUR 1,375.0 million, accounting for the bulk of total mathematical provisions. Mathematical provisions for life insurance totalled EUR 1,009.7 million (index 102), while insurance technical provisions for unit-linked life insurance contracts equalled EUR 365.2 million (index 88). In the calculation methodology for mathematical provisions, the calculation of additional mathematical provisions for supplemental voluntary pension insurance was changed and the internally set maximum interest rate used for the valuation of life insurance liabilities was reduced. Due to both changes, mathematical provisions rose by EUR 4.6 million. A decrease in insurance technical

provisions for unit-linked life insurance contracts is a consequence of a decline in the value of unit-linked life insurance assets.

- Other insurance technical provisions** grew by 30% to EUR 18.3 million. A 44% growth in other insurance technical provisions was seen in Triglav, Zdravstvena zavarovalnica due to the increase in provisions for unexpired risks arising from Zobje and Zobje+ insurance. Other insurance technical provisions of Zavarovalnica Triglav totalled EUR 10.4 million, up by 26%. The reason for the increase was the creation of additional provisions for liabilities arising from pension annuities of Skupna pokojninska družba, which the Company formed in accordance with the court settlement between both companies. Due to the said court settlement, Skupna pokojninska družba allocated EUR 1.4 million to insurance technical provisions. Net effect of the above-mentioned settlement amounted to EUR 2.0 million at the Group level.

Gross insurance technical provisions of the Triglav Group as at 31 December 2018

	Gross insurance technical provisions			Index	
	31 December 2018	31 December 2017	31 December 2016	2018/2017	2017/2016
Unearned premiums	300,166,946	278,112,719	263,639,620	108	105
Mathematical provisions	1,759,831,056	1,782,599,954	1,731,221,699	99	103
Claims provisions	614,943,915	638,473,713	635,240,895	96	101
Provisions for bonuses and discounts	19,833,253	18,943,606	19,105,924	105	99
Other insurance technical provisions	18,325,930	14,115,599	11,580,177	130	122
Total	2,713,101,100	2,732,245,591	2,660,788,315	99	103

Gross insurance technical provisions of Zavarovalnica Triglav as at 31 December 2018

	Gross insurance technical provisions			Index	
	31 December 2018	31 December 2017	31 December 2016	2018/2017	2017/2016
Unearned premiums	213,919,937	196,528,185	188,487,876	109	104
Mathematical provisions	1,374,950,680	1,410,988,265	1,390,394,245	97	101
Claims provisions	442,560,188	469,230,899	471,240,775	94	100
Provisions for bonuses and discounts	19,547,002	18,349,804	18,495,379	107	99
Other insurance technical provisions	10,403,743	8,262,880	7,684,844	126	108
Total	2,061,381,550	2,103,360,033	2,076,303,119	98	101

7.8.2 Reinsurance and coinsurance

The **Triglav Group** operates in the global reinsurance market via Pozarovalnica Triglav Re and Zavarovalnica Triglav. Optimum coverage terms and conditions were pursued and also achieved in all reinsurance and co-insurance contracts in the reporting year. The Group allocated EUR 104.0 million of reinsurance and coinsurance premiums to external equalisation, which was 9% more over the 2017 year-end. Ceded reinsurance premium accounted for 9.7% of total gross written premium or 0.1 percentage point more than the year before. Changes in unearned premium related to the reinsurance portion totalled EUR 6.3 million. The reinsurers' and co-insurers' share in gross claims paid amounted to EUR 40.2 million (index 162). The change in gross claims provisions for the reinsurance portion equalled EUR –11.3 million (vs. EUR 6.8 million in 2017). The Group also received EUR 15.8 million in reinsurance commissions. The reinsurance result was negative and amounted to EUR –53.1 million (vs. EUR –47.4 million in 2017).

The reinsurance result of **Zavarovalnica Triglav** was EUR –43.8 million (vs. EUR –41.6 million in 2017).

7.9 The structure of financial investments of the Triglav Group and Zavarovalnica Triglav

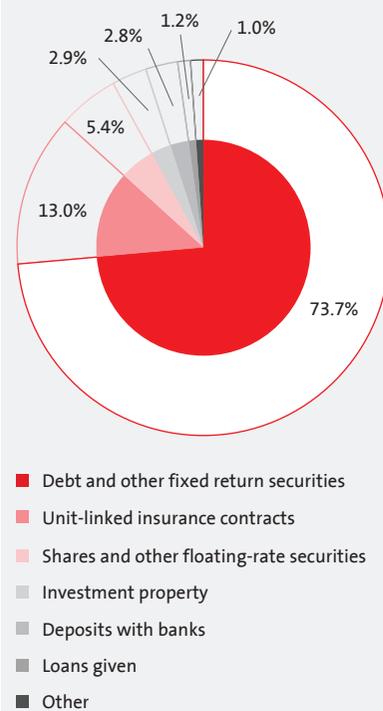
The Triglav Group continues to follow a relatively conservative investment policy, focusing on investment security and liquidity governed by adequate profitability. In the reporting year, the structure of financial investments did not significantly change, but the Group actively adapted the shares of individual investment grades in order to maintain a high overall credit rating of the whole investment portfolio.

As at the reporting date, financial investments of the **Triglav Group**, including investment properties, amounted to EUR 3,095.4 million or 1% less than as at the 2017 year-end. Their share in total assets dropped by 0.5 percentage points, reaching 84.9%.

Financial investments (including investment properties) of the Triglav Group as at 31 December 2018 and 31 December 2017

	Financial investments		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
Investment property	89,840,456	94,007,483	96	2.9%	3.0%
Shares in associates	14,125,973	6,449,324	219	0.5%	0.2%
Shares and other floating-rate securities	168,345,913	217,756,846	77	5.4%	6.9%
Debt and other fixed return securities	2,281,642,459	2,237,729,266	102	73.7%	71.3%
Loans given	36,350,241	30,095,727	121	1.2%	1.0%
Deposits with banks	86,365,522	73,807,472	117	2.8%	2.4%
Other financial investments	9,918,886	22,793,778	44	0.3%	0.7%
Financial investments of reinsurance companies in reinsurance contracts with cedents	6,281,276	5,667,613	111	0.2%	0.2%
Unit-linked insurance contracts	402,515,770	450,236,045	89	13.0%	14.3%
Total	3,095,386,496	3,138,543,554	99	100.0%	100.0%

Financial investments of the Triglav Group as at 31 December 2018



The share of total debt and other fixed-return securities grew by 2.4 percentage point to 73.7%. Due to tactical adaptations of the portfolio to the market conditions, the exposure to equity investments was reduced. Their share in total financial assets fell by 1.5 percentage point to 5.4%, whilst other investment grades were only slightly adjusted. Financial investments in associates increased, primarily due to the capital share increase of Triglav, whereas other financial investments were down mainly as a result of the sale of equity stakes in Geoplin and Plinhold.

The structure of debt security and equity investment structures are presented in detail below.

By issuer sector, government bonds accounted for more than one half of total debt securities. Compared to the 2017 year-end, they were up 5%, whilst their share in total financial assets grew by 1.6 percentage points, followed by corporate bonds accounted with a 24.8% share and financial bonds with a 23.4%. Due to the harmonisation of the structure, the share of corporate bonds slightly decreased, whereas the share of financial bonds increased. The already low share of structured bonds further decreased in 2017.

Debt securities of the Triglav Group by issuer sector in 2018 and 2017

Issuer sector	Debt securities		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
Government	1,177,116,267	1,119,983,226	105	51.6%	50.0%
Corporate	565,694,196	602,260,650	94	24.8%	26.9%
Financial	534,487,535	505,597,282	106	23.4%	22.6%
Structured	4,344,459	9,888,107	44	0.2%	0.4%
Total	2,281,642,459	2,237,729,265	102	100.0%	100.0%

Unit-linked life insurance contract investments data excluded.

The Group's investment portfolio mostly consists of investments in debt securities with a high **credit rating**. In 2018, the quality of the portfolio was further improved. A share of 81.5% of the portfolio is accounted for by debt securities of issuers having an investment grade credit rating of at least BBB, which represents an increase from 78.2% over the 2017 year-end, primarily in developed markets, which ensures adequate liquidity for the Group.

Debt securities of the Triglav Group by credit rating in 2018 and 2017

Credit rating	Debt securities		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
AAA	220,729,382	224,091,714	98	9.7%	10.0%
AA	151,075,209	135,030,742	112	6.6%	6.0%
A	647,169,663	608,061,142	106	28.4%	27.2%
BBB	838,541,633	781,708,302	107	36.8%	34.9%
Below BBB	324,940,014	385,803,394	84	14.2%	17.2%
Not rated	99,186,558	103,033,971	96	4.3%	4.6%
Total	2,281,642,459	2,237,729,265	102	100.0%	100.0%

Unit-linked life insurance contract investments data excluded.

The majority of the portfolio is accounted for by debt securities of **issuers from the countries** with a high credit rating. Certain changes in the exposure to individual countries are a result of price fluctuations and tactical adjustment of some items.

Debt securities of the Triglav Group by issuer country in 2018 and 2017

Country of issuer	Debt securities		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
Slovenia	372,682,300	370,950,356	100	16.3%	16.6%
Netherlands	174,147,165	182,670,364	95	7.6%	8.2%
Germany	170,997,573	171,947,794	99	7.5%	7.7%
Italy	165,345,901	140,023,509	118	7.2%	6.3%
France	152,372,593	136,588,287	112	6.7%	6.1%
Spain	130,282,806	125,155,289	104	5.7%	5.6%
USA	108,952,967	113,670,674	96	4.8%	5.1%
Croatia	100,188,584	105,260,997	95	4.4%	4.7%
Great Britain	77,287,888	73,813,737	105	3.4%	3.3%
Portugal	74,877,427	63,131,466	119	3.3%	2.8%
Other	754,507,255	754,516,792	100	33.1%	33.7%
Total	2,281,642,459	2,237,729,265	102	100.0%	100.0%

Unit-linked life insurance contract investments data excluded.

The volume of **equity investments of the Group** (shares and other floating rate securities and investments in associates) decreased by 19%, primarily due to tactical adaptations of the portfolio to the market conditions. Equity investments also include the category *other funds*, which consists mostly of alternative funds. Currently, this category accounts for 12.5% of equity investments, however its volume is gradually increasing.

Equity investments of the Triglav Group by investment type in 2018 and 2017

Equity investment type	Equity investments		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
Shares	80,697,172	80,546,247	100	44.2%	35.9%
Equity funds	56,903,183	79,375,253	72	31.2%	35.4%
Bond funds	12,487,022	40,971,423	30	6.8%	18.3%
Money market funds	9,618,545	12,438,719	77	5.3%	5.5%
Other funds	22,765,964	10,874,528	209	12.5%	4.9%
Total	182,471,886	224,206,170	81	100.0%	100.0%

Equity investments of the Triglav Group by geographic area in 2018 and 2017

Geographic area	Equity investments		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
Slovenia	61,154,968	62,230,851	98	33.5%	27.8%
Developed markets	98,861,077	138,198,029	72	54.2%	61.6%
Developing markets	13,081,652	12,763,426	102	7.2%	5.7%
Balkans	9,374,190	11,013,865	85	5.1%	4.9%
Total	182,471,886	224,206,170	81	100.0%	100.0%

In **Zavarovalnica Triglav**, financial investments, including investment properties, amounted to EUR 2,400.9 million, down 2% compared to the 2017 year-end.

Financial investments of the Triglav Group as at 31 December 2018 and 31 December 2017

	Financial investments		Index	Structure	
	31 Dec. 2018	31 Dec. 2017	2018/2017	31 Dec. 2018	31 Dec. 2017
Investment property	45,270,540	48,214,401	94	1.9%	2.0%
Investments in subsidiaries and associates	148,898,023	128,169,985	116	6.2%	5.2%
Shares and other floating-rate securities	85,450,642	135,783,991	63	3.6%	5.5%
Debt and other fixed return securities	1,666,922,943	1,638,907,656	102	69.4%	66.8%
Loans given	46,099,990	48,781,121	95	1.9%	2.0%
Deposits with banks	38,481,554	33,974,540	113	1.6%	1.4%
Other financial investments	1,688,557	1,680,215	100	0.1%	0.1%
Derivative financial instruments	1,393,263	1,870,633	74	0.1%	0.1%
Unit-linked insurance contract investments	366,664,078	417,607,959	88	15.3%	17.0%
Total	2,400,869,590	2,454,990,500	98	100.0%	100.0%

7.10 Asset management

The asset management activity in the Triglav Group is primarily performed by Zavarovalnica Triglav for the Group's own insurance portfolios (assets backing liabilities and guarantee funds) and the subsidiary Triglav Skladi by managing mutual funds and through discretionary mandate. Apart from that, the Group is an important partner of the alternative investment management platform Triglav.

Adopted strategic guidelines focus on enhancing the visibility of the Group as the leading asset manager in the target markets and increasing the volume of assets under management. Related thereto, the Group signed agreements to acquire Raiffeisen Mirovinsko osiguravajučo društvo and the Slovene asset management company ALTA Skladi.

Asset management market

In the reporting period, the consolidation of the Slovene market continued, where, as at the 2018 year-end, 2 companies less were operating on the Slovene market compared to the previous year. As the reporting date, an amount of EUR 2.5 billion of net asset value was managed under mutual funds of 5 companies, which

represented a 7.1% decrease compared to the 2017 year-end. In the discretionary mandate segment, 7 companies were operating in Slovenia, of which 3 were asset management companies. The value of these assets managed by asset management companies totalled EUR 713 million (index 101) as at 31 December 2018.

Triglav Skladi manages 17 mutual funds and 6 investment combinations and provides discretionary mandate services. At the 2018 year-end, they reached EUR 606.1 million, having decreased by 10.9% over the preceding year. The situation on capital markets and net cash outflows had a significant impact on the volume of assets under management. The discretionary mandate segment rose by 9.8% to EUR 50.0 million as at the 2018 year-end.

As at the reporting date, Triglav Skladi held a 24.6% market share among asset management companies (25.6% vs. 2017) in the mutual fund segment and a 7.0% market share (6.5% vs. 2017) in the discretionary mandate segment.

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.

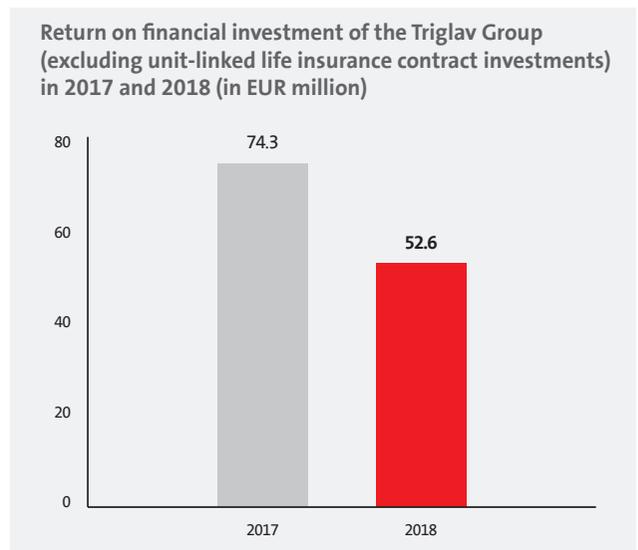
8.1.2 Income and expenses from financial assets

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

Financial
result of
the Triglav
Group and
Zavarovalnica
TriglavBusiness
ReportRisk
ManagementAccounting
ReportTable
of ContentsThe Triglav
Group and
Zavarovalnica
Triglav d.d.
Annual Report
2018

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*

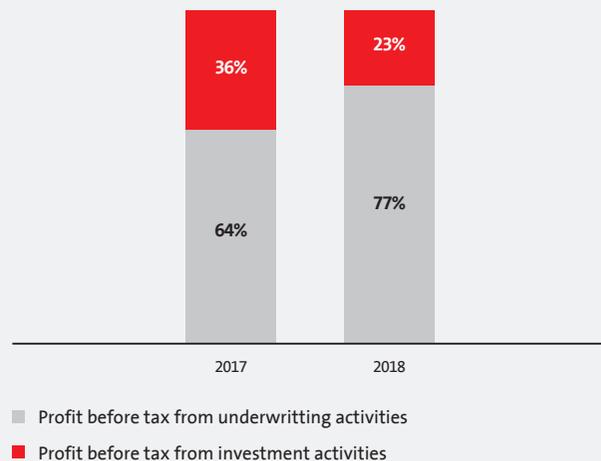
	2018				2017			
	Non-life	Life	Health	Total	Non-life	Life	Health	Total
Profit before tax from underwriting activities	51,167,138	17,820,019	2,638,850	71,626,007	37,215,150	14,426,530	2,607,645	54,249,325
Profit before tax from investment activities	24,534,323	-3,699,325	723,642	21,558,640	24,955,012	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.

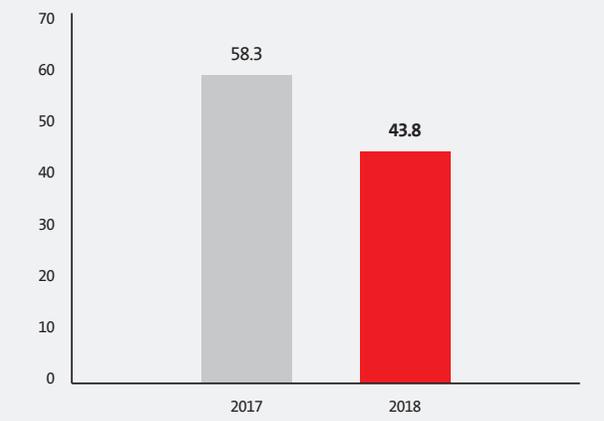
8.2.2 Income and expenses from financial assets

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.

9. Financial standing of the Triglav Group and Zavarovalnica Triglav

9.1 The Triglav Group

9.1.1 Equity and liabilities

As at the reporting date, **total equity capital** of the Triglav Group reached EUR 746.9 million (index 99). The share of equity in the balance sheet total decreased by 0.1 percentage point to 20.5%. Equity attributable to the controlling company dropped by 1% to EUR 744.6 million, whereas non-controlling interest holders had EUR 2.3 million, down by 66% due to the acquisition of equity share in Skupna pokojninska družba. 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 a decrease in the value of available-for-sale financial assets, **fair value reserve** decreased by 31% and totalled EUR 66.2 million. **Share premium** reached EUR 50.2 million and remained at approximately the same level as the year before (index 100).

Reserves from profit amounted to EUR 334.1 million and remained at a level approximately equal to the 2017 year-end (index 100). They include other reserves from profit of EUR 314.3 million, legal and statutory reserves in the amount of EUR 19.2 million, which increased by EUR 708 thousand due to a transfer from profit brought forward and credit risk equalisation reserves and contingency reserves of EUR 0.6 million, whereas **accumulated profit** grew by 12% and reached EUR 223.0 million. In addition to EUR 80.5 million in net profit for the year, it includes EUR 142.5 million of net profit brought forward. Compared to 2017, net profit brought forward increased by EUR 39.1 million due to the transfer of net profit of the preceding year and decreased by EUR 585 thousand due to allocation of net profit for the year to reserves from profit and by EUR 56.8 million due to the dividend payment.

Subordinated liabilities amounted to EUR 15.5 million and were at a level approximately equal to the 2017 year-end (index 100).

Gross insurance technical provisions totalled EUR 2,713.1 million or 1% less than on the last day of 2017. Its share in the balance-sheet total equalled 74.4%, the same as in 2017. Mathematical provisions fell by 1% to EUR 1,759.8 million. As expected, claims provisions went down by 4%. On contrast, provisions for gross unearned premiums (index 108) and other insurance

technical provisions (index 115) increased. Insurance technical provisions of the Triglav Group are discussed in greater detail in [→ Section 7.8].

Operating liabilities grew by 11% compared to the 2017 year-end, amounting to EUR 54.8 million, and accounted for 1.5% of total liabilities, foremost as a result of increased current tax liabilities.

Employee benefits of EUR 14.8 million grew by 6%, whilst **other provisions** totalled EUR 1.9 million (index 51). **Deferred tax liabilities**, which were balanced with deferred tax assets, amounted to EUR 17.2 million. Deferred tax liabilities decreased by 35%, primarily due to higher fair value reserve from financial investments for which deferred tax is calculated.

Other liabilities increased by 6% mainly due to higher liabilities for property, plant and equipment and liabilities to employees of the parent company. They amounted to EUR 75.5 million, accounting for 2.1% of total liabilities.

- Compared to 2017, return on equity of the Triglav Group increased by 1.5 percentage point and reached 10.8%.
- Total assets and total equity capital decreased by 1%.

9.1.2 Assets

Financial investments in associates of the Triglav Group increased by 119% to EUR 14.1 million as a result of a capital raise of Triglav in the amount of EUR 6.8 million, new investment in the company ZTSR in the amount of EUR 0.1 million and the effects of the equity method.

Financial investments accounted for 71.0% of total assets. With EUR 2,588.9 million, they remained approximately at the same level as at the 2017 year-end. In total investments, available for sale financial assets accounted for the bulk, amounting to EUR 1,802.6 million. In total financial assets, EUR 450.7 million was accounted for by financial assets measured at fair value through profit or loss, EUR 196.8 million by held-to-maturity financial assets, and EUR 138.9 million by deposits and loans. **Unit-linked insurance assets** amounted to EUR 402.5 million, which decreased by 11%. **Investment property** declined by 4% due to the sale of real-properties, totalling EUR 89.8 million. The structure of financial assets is discussed in greater detail under [→ *Section 7.9*].

As at the reporting date, **receivables** increased by 9% and stood at EUR 178.7 million (a 4.9% share of total assets), of which receivables from direct insurance operations accounted for the bulk, totalling EUR 96.6 million (index 113). Receivables from co-insurance and reinsurance operations reached EUR 51.3 million (index 114), other receivables stood at EUR 30.2 million (index 91) and current tax receivables equalled EUR 580 thousand (2017: EUR 32 thousand).

Insurance technical provisions transferred to reinsurance contracts amounted to EUR 85.9 million, having increased by 3%. Assets from reinsurance contracts from claim provisions were 7% lower and totalled EUR 59.6 million, while those from unearned premiums were up by 33% and equalled EUR 26.3 million.

Intangible assets reached EUR 84.1 million, having increased by 7% primarily due to higher long-term deferred acquisition costs in the parent company. **Property, plant and equipment** totalled EUR 113.3 million, up by 2% compared to the 2017 year-end.

Non-current assets held for sale equalled EUR 2.1 million due to the planned sale of specific land plots and buildings.

Financial standing ratios of the Triglav Group

Financial standing ratios	2018	2017	2016
The portion of equity in total liabilities	20.5%	20.6%	20.8%
Average equity balance as % of gross written premium	70.4%	75.1%	77.4%
Return on equity	10.8%	9.3%	11.4%
Share of gross insurance technical provisions in total liabilities	74.4%	74.4%	74.4%
Average balance of gross insurance technical provisions as % of gross written premium	254.8%	269.7%	281.0%
Financial assets to total assets ratio	82.1%	82.7%	83.2%
Financial assets to gross insurance technical provisions ratio	110.3%	111.2%	111.8%

Balance sheet of the Triglav Group as at 31 December 2018 – according to IFRS

	31 December 2018	31 December 2017	Index	Structure 2018	Structure 2017
ASSETS	3,645,277,487	3,674,676,193	99	100.0%	100.0%
Intangible assets	84,060,048	78,840,612	107	2.3%	2.1%
Property, plant and equipment	113,296,053	111,210,437	102	3.1%	3.0%
Non-current assets held for sale	2,067,399	2,278,440	91	0.1%	0.1%
Deferred tax assets	12,893,732	13,769,115	94	0.4%	0.4%
Investment property	89,840,456	94,007,483	96	2.5%	2.6%
Investments in associates	14,125,973	6,449,324	219	0.4%	0.2%
Financial investments	2,588,904,297	2,587,850,704	100	71.0%	70.4%
- loans and deposits	138,857,972	125,251,487	111	3.8%	3.4%
- held to maturity	196,773,185	221,390,576	89	5.4%	6.0%
- available for sale	1,802,568,767	1,815,323,900	99	49.4%	49.4%
- recognised at fair value through profit and loss	450,704,373	425,884,741	106	12.4%	11.6%
Unit-linked insurance assets	402,515,770	450,236,044	89	11.0%	12.3%
Reinsurers' share of insurance technical provisions	85,920,499	83,815,576	103	2.4%	2.3%
Receivables	178,654,878	163,878,354	109	4.9%	4.5%
- receivables from direct insurance operations	96,601,328	85,722,492	113	2.7%	2.3%
- receivables from reinsurance and co-insurance operations	51,299,903	44,939,702	114	1.4%	1.2%
- current tax receivables	579,645	32,211	1,800	0.0%	0.0%
- other receivables	30,174,002	33,183,949	91	0.8%	0.9%
Other assets	5,396,722	3,922,257	138	0.1%	0.1%
Cash and cash equivalents	67,601,660	78,417,847	86	1.9%	2.1%
<i>Off balance sheet items</i>	<i>251,429,127</i>	<i>240,363,102</i>	<i>105</i>		
EQUITY AND LIABILITIES	3,645,277,487	3,674,676,193	99	100.0%	100.0%
Equity	746,862,805	756,645,683	99	20.5%	20.6%
Controlling interests	744,566,806	749,838,244	99	20.4%	20.4%
- share capital	73,701,392	73,701,392	100	2.0%	2.0%
- share premium	50,206,540	50,403,656	100	1.4%	1.4%
- reserves from profit	334,121,464	333,407,073	100	9.2%	9.1%
- treasury share reserves	364,680	364,680	100	0.0%	0.0%
- treasury shares	-364,680	-364,680	100	0.0%	0.0%
- fair value reserve	66,237,889	95,398,236	69	1.8%	2.6%
- net profit brought forward	142,483,579	160,647,992	89	3.9%	4.4%
- net profit/loss for the year	80,533,643	39,133,955	206	2.2%	1.1%
- currency translation differences	-2,717,701	-2,854,060	95	-0.1%	-0.1%
Non-controlling interests	2,295,999	6,807,439	34	0.1%	0.2%
Subordinated liabilities	15,462,711	15,459,132	100	0.4%	0.4%
Insurance technical provisions	2,310,503,061	2,282,701,026	101	63.4%	62.1%
- unearned premiums	300,166,946	278,112,719	108	8.2%	7.6%
- mathematical provisions	1,357,233,017	1,333,055,389	102	37.2%	36.3%
- claims provisions	614,943,915	638,473,713	96	16.9%	17.4%
- other insurance-technical provisions	38,159,183	33,059,205	115	1.0%	0.9%
Insurance technical provisions for unit-linked insurance contracts	402,598,039	449,544,565	90	11.0%	12.2%
Employee benefits	14,804,574	13,979,843	106	0.4%	0.4%
Other provisions	1,919,555	3,794,647	51	0.1%	0.1%
Deferred tax liabilities	17,203,576	26,396,579	65	0.5%	0.7%
Other financial liabilities	5,620,904	5,589,381	101	0.2%	0.2%
Operating liabilities	54,792,055	49,381,602	111	1.5%	1.3%
- liabilities from direct insurance operations	19,717,929	18,875,323	104	0.5%	0.5%
- liabilities from reinsurance and co-insurance operations	30,465,655	28,758,158	106	0.8%	0.8%
- current tax liabilities	4,608,471	1,748,121	264	0.1%	0.0%
Other liabilities	75,510,207	71,183,735	106	2.1%	1.9%
<i>Off balance sheet items</i>	<i>251,429,127</i>	<i>240,363,102</i>	<i>105</i>		

Business
ReportRisk
ManagementAccounting
ReportTable
of ContentsThe Triglav
Group and
Zavarovalnica
Triglav d.d.
Annual Report
2018

9.2 Zavarovalnica Triglav

9.2.1 Equity and liabilities

The total equity capital as at the reporting date amounted to EUR 560.1 million or 2% less than at the 2017 year-end. The portion of equity in the balance sheet total of 20.5% remained unchanged. The share capital of EUR 73.7 million remained unchanged and was divided into 22,735,148 ordinary registered no-par value shares. Share premium and reserves from profit remained the same with EUR 53.4 million and EUR 319.0 million respectively. As a result of a decrease in the value of available-for-sale financial assets, fair value reserve went down by 30% to EUR 47.3 million in nominal terms.

As at 31 December 2018, accumulated profit for the year was EUR 66.8 million (index 115), including net profit for the year and net profit brought forward of EUR 1.2 million (index 5). Net profit brought forward increased by EUR 32.3 million due to a transfer of net profit and decreased by EUR 56.8 million due to the dividend payment.

Subordinated liabilities amounted to EUR 20.6 million and were at a level approximately equal to the 2017 year-end (index 100).

On the liabilities side, **gross insurance technical provisions** decreased by 2% and stood at EUR 2,061.4 million. The portion of gross insurance technical provisions in the balance sheet total remained unchanged compared to the end of 2017 at 75.5%. As at the reporting date, mathematical provisions amounted to EUR 1,375.0 million, which represented a decrease of 3% over the end of the previous year. Gross claims provisions decreased by 6%. Provisions for gross unearned premiums were up by 9% and other insurance technical provisions by 13%. Insurance technical provisions are discussed in greater detail under [→ *Section 7.8 Risk equalisation*].

Operating liabilities grew by 3% compared to the 2017 year-end, amounting to EUR 28.5 million (share of 1.0% of the total balance sheet liabilities), foremost as a result of increased current tax liabilities (199%).

Deferred tax liabilities, which are balanced with deferred tax assets, decreased by 70%, which was mainly due to lower fair value reserve from financial investments, recognised under other comprehensive income. They totalled EUR 2.8 million.

Other liabilities increased by 6% due to higher liabilities arising from plant, property and equipment and liabilities to employees. As at the reporting date, they stood at EUR 43.2 million, representing 1.6% of total balance sheet.

9.2.2 Liabilities

Financial investments were down by 3% to EUR 2,206.7 million. Their share in total assets was down 0.9 percentage point, accounting for 80.8%. **Unit-linked insurance assets** went down by 12% (EUR 366.7 million), whereas financial investments decreased by 1% to EUR 1,840.0 million. In total **financial investments**, EUR 1,383.9 million was accounted for by investments available for sale, EUR 204.0 million by investments recognised at fair value through profit/loss, EUR 159.5 million by investments held to maturity and by deposits and loans EUR 92.7 million.

Financial investments in subsidiaries and associates grew by 16% and totalled EUR 148.9 million, representing a 5.5% share of total assets. Financial investments in subsidiaries amounted to EUR 131.9 million, which was 12% more over 2017 as a result of a capital increase of Triglav INT in the amount of EUR 9.2 million and acquisition of equity stake of Skupna pokojninska družba in the amount of EUR 4.6 million. Financial investments in associates increased by 70% to EUR 17.0 million as a result of a capital raise of Triglav in the amount of EUR 6.8 million and a new investment in the company ZTSR in the amount of EUR 0.1 million.

Investment properties dropped by 6% to EUR 45.3 million due to sale of certain real properties, accounting for 1.7% of total assets.

Compared to 31 December 2017, **receivables** increased by 11% to EUR 90.0 million, representing 3.3% of total financial assets, of which receivables from direct insurance operations accounted for the bulk, having increased by 14% to EUR 62.6 million. Receivables from reinsurance and co-insurance operations were up by 31% and reached EUR 18.2 million, whereas other receivables totalled EUR 9.2 million, having decreased by 28%.

Insurance technical provisions transferred to reinsurance contracts stood at EUR 87.9 million, which represented and increase of 3%. Assets from reinsurance contracts from claim provisions were 5% lower and totalled EUR 64.4 million, while those from unearned premiums were up by 34% and equalled EUR 23.5 million.

Intangible assets stood at EUR 62.2 million, which was 4% more over the 2017-year end primarily due to higher long-term deferred acquisition costs.

Balance sheet of Zavarovalnica Triglav as at 31 December 2018 – according to IFRS

	31 December 2018	31 December 2017	Index	Structure 2018	Structure 2017
ASSETS	2,730,187,525	2,786,489,540	98	100.0%	100.0%
Intangible assets	62,162,502	59,786,283	104	2.3%	2.1%
Property, plant and equipment	67,986,100	67,526,775	101	2.5%	2.4%
Investment property	45,270,540	48,214,401	94	1.7%	1.7%
Investments in subsidiaries	131,938,667	118,167,937	112	4.8%	4.2%
Investments in associates	16,959,355	10,002,047	170	0.6%	0.4%
Financial investments	1,840,036,950	1,860,998,156	99	67.4%	66.8%
- loans and deposits	92,670,309	91,428,595	101	3.4%	3.3%
- held to maturity	159,463,950	166,993,807	95	5.8%	6.0%
- available for sale	1,383,855,505	1,400,652,988	99	50.7%	50.3%
- recognised at fair value through profit and loss	204,047,186	201,922,766	101	7.5%	7.2%
Unit-linked insurance assets	366,664,078	417,607,959	88	13.4%	15.0%
Reinsurers' share of insurance technical provisions	87,893,306	85,327,645	103	3.2%	3.1%
Receivables	89,980,951	81,350,417	111	3.3%	2.9%
- receivables from direct insurance operations	62,635,337	54,731,853	114	2.3%	2.0%
- receivables from reinsurance and co-insurance operations	18,157,611	13,889,792	131	0.7%	0.5%
- other receivables	9,188,003	12,728,772	72	0.3%	0.5%
Other assets	3,296,589	1,993,174	165	0.1%	0.1%
Cash and cash equivalents	17,998,487	35,514,746	51	0.7%	1.3%
<i>Off balance sheet items</i>	<i>178,359,227</i>	<i>174,448,801</i>	<i>102</i>		
EQUITY AND LIABILITIES	2,730,187,525	2,786,489,540	98	100.0%	100.0%
Equity	560,120,736	571,412,305	98	20.5%	20.5%
- share capital	73,701,392	73,701,392	100	2.7%	2.6%
- share premium	53,412,884	53,412,884	100	2.0%	1.9%
- reserves from profit	318,962,643	318,962,643	100	11.7%	11.4%
- fair value reserve	47,260,189	67,250,264	70	1.7%	2.4%
- net profit brought forward	1,239,764	25,563,172	5	0.0%	0.9%
- net profit/loss for the year	65,543,864	32,521,950	202	2.4%	1.2%
Subordinated liabilities	20,612,951	20,608,180	100	0.8%	0.7%
Insurance technical provisions	1,696,143,475	1,687,109,267	101	62.1%	60.5%
- unearned premiums	213,919,937	196,528,185	109	7.8%	7.1%
- mathematical provisions	1,009,712,605	994,737,498	102	37.0%	35.7%
- claims provisions	442,560,188	469,230,900	94	16.2%	16.8%
- other insurance technical provisions	29,950,745	26,612,684	113	1.1%	1.0%
Insurance technical provisions for unit-linked insurance contracts	365,238,075	416,250,767	88	13.4%	14.9%
Employee benefits	11,167,156	10,700,463	104	0.4%	0.4%
Other provisions	758,435	724,961	105	0.0%	0.0%
Deferred tax liabilities	2,813,736	9,301,053	30	0.1%	0.3%
Other financial liabilities	1,587,443	1,845,184	86	0.1%	0.1%
Operating liabilities	28,523,572	27,740,050	103	1.0%	1.0%
- liabilities from direct insurance operations	11,306,835	11,354,265	100	0.4%	0.4%
- liabilities from reinsurance and co-insurance operations	13,819,946	15,249,797	91	0.5%	0.5%
- current tax liabilities	3,396,791	1,135,988	299	0.1%	0.0%
Other liabilities	43,221,946	40,797,310	106	1.6%	1.5%
<i>Off balance sheet items</i>	<i>178,359,227</i>	<i>174,448,801</i>	<i>102</i>		

10. Cash Flow Statement

10.1 The Triglav Group

The **cash flow from operating activities** of the Triglav Group was positive and equalled EUR 44.0 million. Compared to the previous year, it fell by 11% mostly due to lower debt recovery.

A **positive cash flow from investing activities** of EUR 3.4 million, down by 85% compared to the year before. This decrease was primarily caused by retained investment activities due to the extremely low interest rate environment and lower returns.

Cash flow from financing activities was negative at EUR –58.3 million (index 96). In addition to dividend payments and subordinated bond interest payments, an expense of EUR 133 thousand was recorded due to the decrease in equity following the acquisition of minority stakes.

The **closing balance of cash and cash equivalents** totalled EUR 67.6 million, having decreased by 14%.

Summary cash flow statement of the Triglav Group

	2018	2017	Index
A. Operating cash flow			
Income statement items	63,558,277	47,763,405	133
Changes in net current assets—operating balance sheet items	-19,565,937	1,918,944	
Net cash from/ (used in) operating activities	43,992,340	49,682,349	89
B. Cash flows from investing activities			
Cash inflows from investing activities	999,778,200	1,295,036,003	77
Cash outflows from investing activities	-996,334,697	-1,271,700,986	78
Net cash from/ (used in) investing activities	3,443,503	23,335,017	15
C. Cash flows from financing activities			
Cash inflows from financing activities	0	0	
Cash outflows from financing activities	-58,256,189	-60,407,207	96
Net cash from/ (used in) financing activities	-58,256,189	-60,407,207	96
D. Closing balance of cash and cash equivalents	67,601,660	78,417,847	86
E1. Net cash flow for the period	-10,820,346	12,610,159	
E2. Foreign exchange differences	4,159	93,214	4
F. Opening balance of cash and cash equivalents	78,417,847	65,714,474	119

- In 2018, 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 in the Triglav Group totalled EUR 67.6 million.

10.2 Zavarovalnica Triglav

A higher positive **cash flow from operating activities** of Zavarovalnica Triglav mainly resulted from higher volume of net premium. It amounted to EUR 13.3 million, having increased by 90% compared to the year before.

Cash flow from investing activities dropped by 54% to EUR 27.3 million nominally compared to the year before, as a result of higher volume of investments, primarily of companies of the Group (capital raise of Triglav INT and Triglav, purchase of shares of Skupna pokojninska družba).

Cash flow from financing activities was negative and reached EUR –58.1 million. Compared to the previous year, it remained at approximately the same level (index 100). Financing expenses included dividend payments and interest paid on ZT02 treasury bonds.

The closing balance of cash and cash equivalents amounted to EUR 18.0 million, falling below the 2017 figure by 49%.

Summary cash flow statement of Zavarovalnica Triglav

	2018	2017	Index
A. Operating cash flow			
Income statement items	27,298,196	2,402,118	1.136
Changes in net current assets—operating balance sheet items	-14,036,824	4,592,420	
Net cash from/ (used in) operating activities	13,261,372	6,994,538	190
B. Cash flows from investing activities			
Cash inflows from investing activities	796,648,223	1,077,968,813	74
Cash outflows from investing activities	-769,343,650	-1,018,983,429	76
Net cash from/ (used in) investing activities	27,304,573	58,985,384	46
C. Cash flows from financing activities			
Cash inflows from financing activities	0	0	
Cash outflows from financing activities	-58,082,203	-58,118,823	100
Net cash from/ (used in) financing activities	-58,082,203	-58,118,823	100
D. Closing balance of cash and cash equivalents	17,998,487	35,514,746	51
E. Net cash flow for the period	-17,516,258	7,861,100	
F. Opening balance of cash and cash equivalents	35,514,746	27,653,646	128