

8. Financial Result of the Triglav Group

- In the challenging environment, the Triglav Group generated a net profit of EUR 85.7 million or 23% more compared to 2013, and achieved a 13.4% return on equity.
- Combined ratio in non-life insurance, which shows profitability of operations, was favourable at 96.3%.
- A high return on financial investments was primarily a result of higher profit from sales in trading with debt securities and shares of Slovene issuers.

Despite unfavourable business environment and extraordinary mass loss events, the Triglav Group ended 2014 with a profit. Profit before tax amounted to EUR 100.4 million or 20% more than in 2013. The Group's net profit grew by 23% to EUR 85.7 million. Compared to 2013, net return on equity increased by 1.4 percentage points to 13.4%.

In non-life insurance, the combined ratio (which shows profitability of operations) remained favourable at 96.3% (vs. 91.0% in 2013). Any value of this ratio below 100 means that the non-life insurance portfolio as the core business (excluding return on investments) is earning a profit.

8.1 Premium income, claims incurred and operating expenses

Net premium earned (calculated on the basis of gross written insurance and co-insurance premiums, reduced by the reinsurers' share and adjusted by the change in gross unearned premiums taking into account the reinsurers' share in unearned premiums) amounted to EUR 819.9 million and was 2% lower than in 2013. Net premiums earned from health insurance increased by 3%, whilst net non-life and life premiums declined by 3%. Ceded written premium amounted to EUR 73.3 million and was 3% higher over the preceding year. Net unearned premium amounted to EUR 4.9 million, representing a 36% decrease compared to the previous year.

Net claims incurred (gross claims increased by claim handling costs, reduced by the reinsurers' and co-insurers' shares and subrogated receivables, adjusted by the change in gross claims provisions taking into account the reinsurers' and co-insurers' shares in these provisions) increased by 4% to EUR 594.7 million nominally over 2013. Net claims incurred from non-life insurance and those from life insurance went up by 6% and by 3% respectively, while those from health insurance remained approximately at the same level as in 2013 (index 100). The reinsurers' and co-insurers' shares of gross claims decreased by 43% to EUR 20.3 million. The change in net claims provisions was EUR -8.4 million, compared with EUR -28.0 million in 2013. Equalisation scheme expenses for supplemental health insurance declined by 3%, amounting to EUR 7.8 million.

Operating expenses (acquisition costs and other operating expenses) remained approximately at the same level as the year before (index 100), reaching EUR 199.4 million. Acquisition costs totalled EUR 135.9 million (index 106), whereas other operating expenses amounted to EUR 63.5 million (index 89).

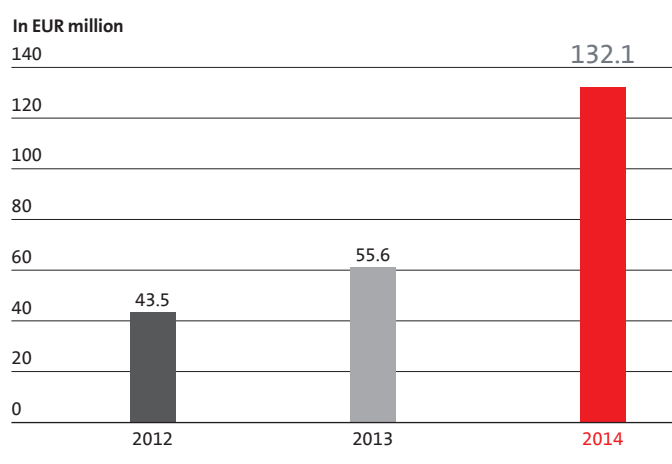
8.2 Income and expenses from financial assets

Income from financial assets increased by 28% and reached EUR 236.4 million. Income from financial assets in associates climbed by 133% to EUR 148 thousand in nominal terms. Income from other financial assets in the reporting year totalled EUR 172.7 million, which was 27% above the figure posted for 2013. The high increase was primarily a result of higher profit from sales in trading with debt securities (index 210) and the profits obtained from the sale of Slovene public limited companies during the privatisation process. High growth in the change in fair value (index 120) was also recorded, because required returns reached record-low levels, increasing the value of investments in bonds recognised at fair value through profit and loss. Due to changes in the dividend policy of some Slovene public limited companies and extraordinary dividend payments, a high increase in dividend income was recorded (index 170). Interest income declined by 4% as a result of lower general interest rate and reinvestment of surplus funds at a lower required return. A high growth of other financial income (index 124) may be attributed to exchange differences, mainly investments denominated in US dollars. Net unrealised gains on unit-linked life insurance assets increased by 31% to EUR 63.5 million.

Consolidated financial expenses equalled EUR 60.3 million or 47% less than in 2013. Expenses from financial assets in associates totalled EUR 71 thousand (2013: EUR 1.4 million), while expenses from other financial assets equalled EUR 40.7 million (index 51). Lower expenses arising from the fair value changes (index 56) were caused by lower required returns to maturity and thus higher fair value of investments. Permanent impairments amounting to EUR 6.3 million went down by as much as 77% compared to 2013 (in 2013 impairments were mainly a result of situation and developments in the Slovene banking sector). Net realised losses on financial assets decreased as in the previous year (index 63) and reached EUR 9.9 million. Net unrealised losses on unit-linked life insurance assets decreased by 42% to EUR 19.5 million.

Return on financial investments (excluding unit-linked insurance contract investments) represents the difference between income and expenses from financial assets. They amounted to EUR 132.1 million, increasing by as much as 138% compared to 2013. The significant increase was primarily a result of higher profit from sales in trading with debt securities and shares and lower permanent impairments of financial investments.

The return on financial investments of the Triglav Group (excluding unit-linked insurance contract investments) in the period from 2012 to 2014



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

Changes in other insurance technical provisions summed up to EUR 59.6 million (2013: 2.7 million) with change in mathematical provisions totalling EUR 58.6 million (2013: EUR 4.1 million) and with change in other provisions equalling EUR 1.1 million (2013: –1.4 million). The reasons for the increase in mathematical provisions are particularly high investment returns and reduced internally set maximum interest rate that the Company uses for the valuation of life insurance liabilities [[→ for details see Section 7.8.1](#)]. Other provisions went up mostly due to provisions for unexpired risks [[→ for details see Section 7.8.1](#)].

Change in insurance technical provisions for unit-linked insurance contracts equalled EUR 23.8 million (index 133) due to an increase in price of fund units. Expenses for bonuses and discounts reached EUR 10.2 million (index 156).

Other insurance income totalled EUR 8.7 million, having increased by 11%. **Other income** rose by 10% to EUR 84.2 million in nominal terms. **Other insurance expenses** equalled EUR 20.3 million (index 86), whereas **other expenses** reached EUR 80.3 million (index 92).

Income statement for 2014 – according to IFRS

	2014	2013	Index
Net premium income	819,864,481	837,642,667	98
- gross written premium	888,246,603	900,892,580	99
- ceded written premium	-73,316,563	-70,920,674	103
- change in unearned premium	4,934,441	7,670,761	64
Income from financial assets	236,378,245	184,692,544	128
Income from financial assets in associates	147,755	63,423	233
- profit on equity investments accounted for using the equity method	147,755	39,532	374
- interest income	0	0	0
- dividends	0	0	0
- fair value gains	0	0	0
- realised gains on disposals	0	23,891	0
- other financial income	0	0	0
Income from other financial assets	172,738,610	136,153,098	127
- interest income	73,244,445	76,142,863	96
- dividends	4,843,275	2,856,987	170
- fair value gains	26,799,233	22,249,328	120
- realised gains on disposals	60,089,485	28,643,036	210
- other financial income	7,762,172	6,260,884	124
Net unrealised gains on unit-linked life insurance assets	63,491,880	48,476,023	131
Other income from insurance operations	8,744,516	7,910,551	111
- fees and commission income	4,110,851	2,493,159	165
- other income from insurance operations	4,633,665	5,417,392	86
Other income	84,197,373	76,614,124	110
Net claims incurred	594,726,608	571,663,099	104
- gross claims settled	615,722,529	627,508,334	98
- reinsurers' share	-20,330,306	-35,840,696	57
- changes in claims provisions	-8,443,475	-27,985,203	30
- equalisation scheme expenses for supplementary health insurance	7,777,860	7,980,664	97
Change in other insurance technical provisions (excluding ULI)	59,648,824	2,651,409	
Change in insurance technical provisions for unit-linked insurance contracts	23,841,561	17,906,261	133
Expenses for bonuses and discounts	10,219,321	6,539,195	156
Operating expenses	199,423,503	199,362,100	100
- acquisition costs	135,886,064	128,032,778	106
- other operating costs	63,537,439	71,329,322	89

	2014	in EUR 2013	Index
Expenses from financial assets and liabilities	60,278,747	114,386,924	53
Expenses from financial assets and liabilities in subsidiaries and associates	70,574	1,417,909	5
- loss on investments accounted for using the equity method	70,574	986,250	7
- interest expense	0	0	0
- fair value losses	0	0	0
- realised loss on disposals	0	418,604	0
- loss on impairment of financial assets	0	0	0
- other expenses from financial assets and liabilities	0	13,054	0
Expenses from other assets and liabilities	40,689,456	79,179,913	51
- interest expense	2,948,802	3,394,926	87
- fair value losses	12,897,286	23,209,947	56
- realised loss on disposals	9,930,193	15,744,740	63
- loss on impairment of financial assets	6,341,300	28,144,000	23
- other expenses from financial assets and liabilities	8,571,875	8,686,300	99
Net unrealised losses on unit-linked insurance assets	19,518,717	33,789,102	58
Other insurance expenses	20,349,159	23,683,481	86
Other expenses	80,285,864	87,026,356	92
Profit before tax	100,411,028	83,641,061	120
Income tax expense	14,728,560	13,790,058	107
Net profit for the accounting period	85,682,468	69,851,003	123
Net profit attributable to the controlling company	85,388,016	69,541,096	123
Net profit attributable to non-controlling interest holders	294,452	309,906	95

Financial result ratios

	2014	2013	2012
Claims ratio	66.2%	61.7%	60.9%
Expense ratio	30.0%	29.3%	28.8%
Combined ratio	96.3%	91.0%	89.6%
Operating expenses of insurance business in gross written premiums	26.0%	25.6%	24.6%
Gross written premium per company employee* (in EUR)	199,516	204,330	212,353

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