

# 7. Performance of the Triglav Group

## 7.1 General economic environment in Slovenia

In 2011 the European debt crisis reached new proportions. Toward the end of the year, the confidence of investors and customers, and along with it international trade, significantly decreased. The Slovene economic recovery was slow and uncertain. Financing conditions and conditions in the labour market were tighter, and the construction crisis has become deeper. According to the first result announcement by the Statistical Office of the Republic of Slovenia, real GDP growth in 2011 decreased by 0.2%. This represents a 1.6 percentage points lower growth compared to the euro area and compared to 2010. Inflationary pressure was negligible compared to low economic activity (1.8% inflation rate). Slovene GDP, measured in current prices, exceeded EUR 35.6 billion and did not change significantly in comparison with the previous year.

In spite of the restricted conditions in the international environment, it was international trade that contributed the most to the growth of the Slovene economy in 2011 (measured by the contribution to the growth of the volume of BDP) with a little less than 2%. However, in most of the EU member states the export was recovering more quickly than in Slovenia, which points to the fall of Slovene export competitiveness. The recorded 6.8% export growth was primarily induced by demand in the EU member states, while the demand from other countries remained modest. The nominal growth of export into the EU was mostly generated by the export of electric appliances and devices, iron and steel, and general purpose industrial machinery. By the end of the year the balance of payments current account deficit remained relatively low at 1%.

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Domestic spending declined again, i.e. by 1.6%. Gross fixed capital formation recorded a 10.7% decrease, while final consumption stagnated. These investment dynamics can be contributed mostly to the tightened conditions in the construction sector. Investments in buildings and facilities decreased considerably, while investments in equipment and machinery stagnated. Domestic consumption remained at the same level as the year before, however, with a decrease in the share of consumption for durable goods. After several years of growth, government consumption decreased by 0.9%, whereas the share of expenditures for social security support increased considerably.

The decrease in the number of employed continued, but to a lesser degree than in the previous two years. Again, the largest fall was recorded in the construction and processing industries as well as traditional market services sectors. The average annual number of unemployed persons was close to 111,000, which is almost 10% more than in the previous year. The average rate of registered unemployment was 11.8% and that according to the workforce survey was 8.1%.

European inter-bank interest rates remained at record low levels, but no major revival of lending activity occurred in Slovenia. Loans to the non-financial sector decreased primarily as a result of lower demand, however, there were also increasingly more reasons for a decrease on the supply side. Financing conditions were tighter due to the general uncertainty and existing indebtedness of companies. The quality of balance sheet assets of Slovene banks worsened, primarily due to their exposure to the construction sector, which forced them to increase the volume of additional impairments and provisions.

The conditions in Slovene public finances did not improve in 2011. According to the latest forecast by the Ministry of Finance, at the end of the year the budget deficit and public debt were 5.5% and 45.1% of the GDP, respectively. Although Slovenia is one of less indebted states in the euro area, its debt has increased at an accelerated rate in the last few years. This is the reason why in terms of financial markets it was compared to Italy, the second most indebted state in the euro area.

and the required rate of return on long-term bonds exceeded 7%. In accordance with the Stability Programme, Slovenia must reduce the deficit to 3% of the GDP no later than by the end of 2013. In order to accomplish that, it must reduce expenditures considerably. The deficit and credibility can be improved in the long run by political stability and structural reforms.

In 2012, a very slow and uncertain revival of the Slovene economy can be expected. According to the spring forecast by IMAD, GDP growth will again be negative at -0.9%. Domestic and especially government consumption is forecasted to decrease. Investment activity will decline as well, however less than in previous years. International trade will alleviate the drop in GDP. The rate of unemployment will increase to 12.9%, whilst inflation will remain low at 2.0%. Public finance trends will not improve. According to the autumn forecast of the European Commission, the budget deficit will not decrease substantially, however, the gross debt will increase to 50.1% by the end of the year. The forecasts are accompanied by many uncertainties, distributed unevenly in the direction of lower economic growth than anticipated. The majority of risks originate in the uncertainty regarding the development of debt crisis in the peripheral states of the euro area, the political situation in the country and the government's efficacy in the implementation of structural reforms.

## 7.2 Impact of the environment on the performance of the Triglav Group

The performance of the Triglav Group in 2011 was affected by the global economic and financial crisis, as previously stated in *sections 6.1.2 and 6.2.2*. It introduced uncertainty into financial markets and encumbered insurance, Triglav's core business. As a financial organisation, Zavarovalnica Triglav is closely intertwined with financial markets and cannot avoid their influence entirely. Since equity investments represent a major part of its assets, the direct influence of the financial crisis on its operations was shown as increased volatility of its investment portfolio. In spite of a relatively conservative investment policy, the value of some investments decreased, which was reflected in the reduction of the share capital and net profit of Zavarovalnica Triglav. Due to significant or permanent value decreases, assets were impaired by EUR 63.2 million.

The economic and financial crisis had an impact on our primary business: insurance operations. The decrease in demand for some insurance products is a consequence of lower economic activity, reduction in export and import, new bankruptcies, reduced purchasing power of households, higher unemployment, reduction of bank loans, etc.

Our performance was also affected by other factors. Increased competitiveness in the motor vehicle insurance market and consequently amendments and adjustment of the actuarial basis of Zavarovalnica Triglav reduced the volume of written premiums for car insurance. Repetitive claims for high amounts in recent years have forced the Company to introduce stricter insurance terms in agricultural insurance, which is the main reason for a decrease in agricultural insurance premiums. An additional loss of planned premium income resulted from the insurance portfolio selection and the intense measures taken to mitigate poorer insurance technical results in non-life insurance.

Nevertheless, the achieved results show that the Group's strategic orientation, focused on the core insurance business and the stability and profitability of operations as key objectives, is effective and can safeguard the Group's business results from the increasingly uncertain impacts of the environment.

Despite a relatively conservative investment policy, the value of certain investments decreased.

### 7.3 Insurance market and market position of the Group members in 2011

According to the most recent official data published by Swiss RE (January 2012), Europe still holds the first place in the international insurance business. In 2010 Europe underwrote 37% of the total premium, which is 2% less than in 2009. North and South America accounted for a 33% and Asia for a 27% share. Africa and Oceania jointly represented just above 3% of the international insurance premium.

The Slovene insurance market is one of the smallest markets both globally and on the European scale. In 2010 it accounted for 0.06% of the global insurance market (in 2009 its share was 0.07%), ranking it 50<sup>th</sup> in the world. Although the Slovene market is 108 times smaller than the British market, which is the biggest European insurance market, it is nonetheless well developed. In terms of absolute size, the Slovene insurance market is larger than the markets of Slovakia, Malta, Cyprus, Croatia, Bulgaria and some other European insurance markets.

Relative indicators show a more appropriate comparison of the insurance market development. On an international scale, Slovenia is ranked 29<sup>th</sup> in premium per capita (premiums as a percentage of GDP), which is one place lower than in 2010, and 25<sup>th</sup> in insurance penetration (the same as in 2009).

#### Premium per capita and market penetration in Slovenia and certain other European countries in 2010

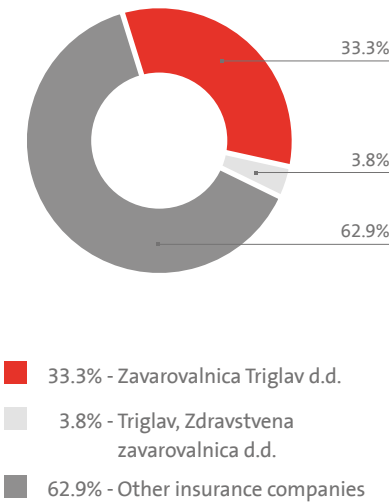
	Premium per capita		Insurance penetration	
	(in USD)	World scale	(as a % of GDP)	World scale
Slovenia	1,353	29	5.9%	25
Austria	2,648	21	5.9%	26
Croatia	379	46	2.8%	51
Czech Republic	777	34	4.2%	38
United Kingdom	4,298	8	11.9%	4
Switzerland	6,724	1	10.0%	10
Greece	542	37	2.0%	59
Serbia	100	66	1.8%	64
EU - geographic area	1,839	-	7.4%	-
EU - 27	2,716	-	8.4%	-

Source: Sigma, Swiss RE (No. 2, 2011)

There were 16 insurance companies and 3 foreign branch offices active in the Slovene insurance market in 2011. Together they recorded a gross written premium amounting to EUR 2.1 billion, which was slightly less than in 2010 (index of 99.9). Traditional insurance companies (18) booked a total of EUR 2.1 billion in premium, of which 70% stemmed from non-life insurance and the remainder from life insurance. In October Modra zavarovalnica was included the traditional insurance companies, It was founded in the process of division by exclusion from Kapitalaska družba (at the time of foundation it took over the management of Closed Mutual Pension Fund for Civil Servants, Capital Mutual Pension Fund, First Pension Fund of the Republic of Slovenia and Guarantee Fund of the First Pension Fund). Non-life insurance premium increased by 1.1%, while life insurance premium decreased (index of 97.4). The data do not include insurance business in Slovenia written directly by insurance companies from other EU member states (FOS). This share is growing, but the Company still considers it to be negligible. Zavarovalnica Triglav directly operates in all 27 EU member states.

The market is characterised by a high degree of concentration. In 2011, the four largest insurers controlled over 70.5% of the traditional market (vs. 70.8% in 2010). By holding 33.3% of the mar-

The 2011 market share of Zavarovalnica Triglav and other traditional insurance companies domiciled in Slovenia



Source: Slovenian Insurance Association

ket, Zavarovalnica Triglav remained the market leader (excluding Modra zavarovalnica the market share of Zavarovalnica Triglav was 35.7%). The second largest market share was held by Zavarovalnica Adriatic Slovenica, a company 2.6 times smaller. At the year end, Zavarovalnica Triglav and Triglav Zdravstvena zavarovalnica had a combined market share of 37.1%, which was 0.8 percentage points less than in 2010 (excluding Modra zavarovalnica their combined market share was 39.8%). Predominantly foreign-owned insurance companies (Generali, Merkur, Grawe, Arag, Ergo, Victoria Volksbanken, Wiener Stadtische) continued to increase their market shares. In 2011, they recorded a total of EUR 202.3 million in premium and had a combined market share of 9.7% (vs. 9.3% in 2010).

The Company held 31.6% of the life insurance market and 34.0% of the non-life insurance market. After excluding Modra zdravstvena zavarovalnica, according to the data up to October of 2011, at the end of the reporting year the market shares of Zavarovalnica Triglav in life insurance and non-life insurance sectors were 40.6% and 34.0% respectively. Since the Slovene insurance market is one of the more developed markets with a relatively high market concentration, the competition is directed at the existing clients. Maintaining the leading position and increasing comparative advantages are therefore both demanding and stimulating for development.

## 7.4 Triglav Group's operations in other markets

### 7.4.1 South-East Europe

The Group operates in seven countries: Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, the Czech Republic, Serbia and the Former Yugoslav Republic of Macedonia. Following the expansion of operations outside Slovenia, the Triglav Group has entered a phase of internal strengthening and integration.

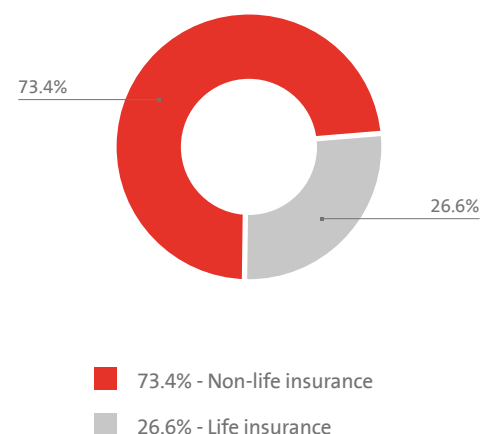
The business policy outside Slovenia is directed primarily at the standardisation and adjustment of business processes in subsidiaries located abroad to the processes in Zavarovalnica Triglav, as well as at the transfer of know-how and experience acquired in professional liability insurance, marketing, IT technology, finance and accounting to insurance subsidiaries abroad. In addition to this, the Company has the following objectives:

- insuring foreign subsidiaries' risks that exceed equalisation schemes by Pozavarovalnica Triglav Re and in accordance with local legislation;
- using comparative advantages in foreign markets;
- using Triglav's presence in rapid-growth markets to boost the operations of the Triglav Group;
- cross-border servicing of Slovene clients' insurance needs on foreign markets;
- ensuring long-term yields on invested assets;
- higher productivity based on economies of scale and synergies.

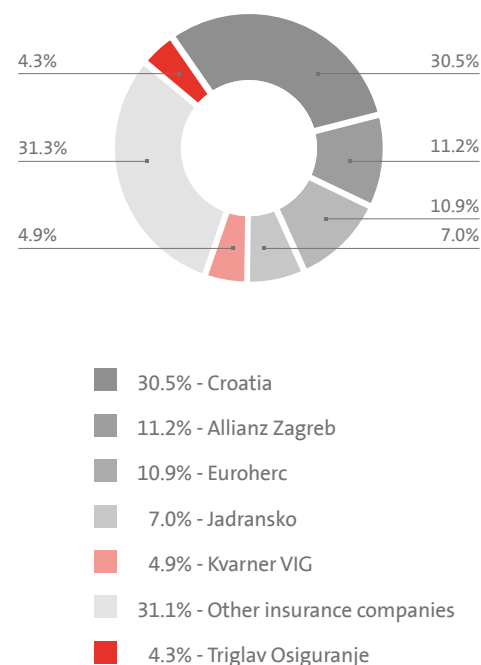
### 7.4.2 Croatia

According to data from the Croatian Chamber of Economy, GDP in Croatia increased by 0.3%. In 2012 the World Bank predicts a drop in Croatian GDP by 1.0%, which is consistent with the assessment by the International Monetary Fund, anticipating global economic decrease, a drop in GDP, increased unemployment and decreased purchasing power. These estimates are in agreement with the predictions of a double dip recession and warnings that GDP growth of 0.3% does not represent an exit from the recession. If the country credit rating of Slovenia is reduced, 2012 may be expected to be the most difficult year since the beginning of the global crisis in 2008. Public debt, which is expected to rise from 45.1% to 51.8% of the GDP, is a cause of particular concern.

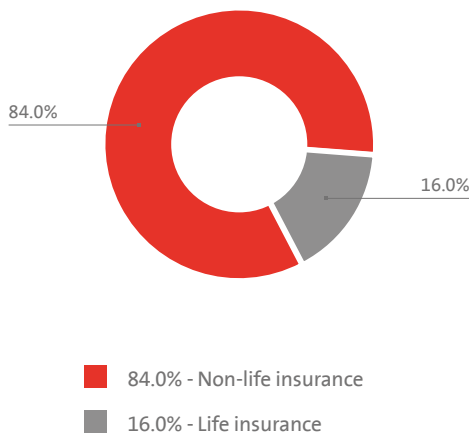
Premium structure in the Croatian insurance market



Shares in the Croatian insurance market



Premium structure in the entire Bosnia and Herzegovina insurance market



The number of unemployed persons in Croatia at the end of 2011 was 315,438, which represents an average unemployment rate of 17.9%. The fastest rise in unemployment was registered among university degree holders. The anticipated unemployment rate for 2012 is 18.7%. The inflation rate in 2011 was 2.3% compared to 1.1% in 2010. The prices of industrial products rose by 7%. Industrial production achieved negative growth of -1.2% and its recovery is not expected before 2013.

2011 Main Macroeconomic Indicators

Population	4.4 million
2011 Growth of GDP (estimate)	0.3%
2011 GDP (estimate)	USD 64.2 billion
2011 GDP per capita (estimate)	USD 14,529
2011 Inflation rate (retail prices) (estimate)	2.3%

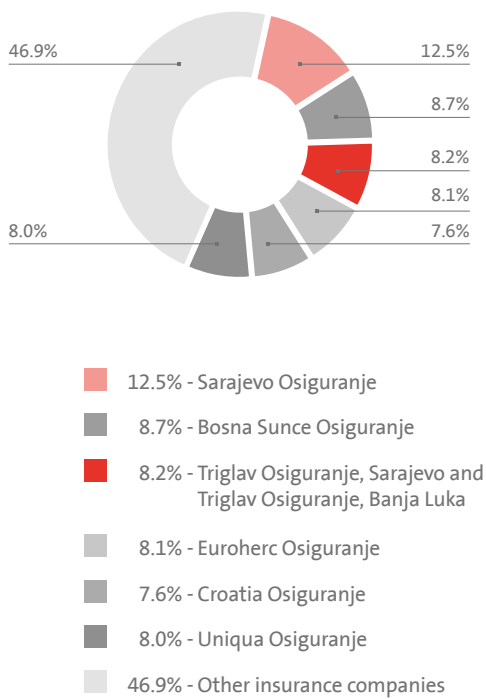
Source: IMF, World Economic Outlook, September 2011, Croatian Chamber of Economy

Insurance market

In the reporting year 26 insurance companies (one more than in 2010) operated in Croatia, of which there were 10 composite insurance companies, 10 non-life insurance companies and 6 life insurance companies. They recorded a total of HRK 9.14 billion in premium or 1% less than in 2010. Of total premium 73% was from non-life insurance and the remaining from life insurance. Non-life insurance premium decreased by 1% and life insurance premium rose by slightly less than 1% over 2010.

Triglav Osiguranje booked a total of HRK 396.0 million in premium and remained in seventh place with a 4.33% market share. Concentration in the insurance market was rather high. The first five insurers held a combined 64.6% market share. The biggest insurance company, Croatia Osiguranje, with 30.5% was the market leader in non-life insurance, whilst in life insurance it was Allianz, with a 15.4% market share.

Shares in the entire insurance market of Bosnia and Herzegovina



7.4.3 Bosnia and Herzegovina

There were no positive economic, political, or social changes in Bosnia and Herzegovina. Even some negative trends were observed. The budget was not officially approved for the entire year, only temporary financing based on income and expenses in 2010 was utilised, which was reflected in reform processes and completely suspended Euro-Atlantic integration. Substantial short-term economic progress is not anticipated.

Political and ethnic tensions are even more pronounced than in the prior period. Following the elections of 2010, no compromise was achieved until the end of December of 2011, when the President of the Council of Ministers of Bosnia and Herzegovina was appointed. The new Council of Ministers is expected to initiate reform processes and improve political and economic environment. It is hard to be optimistic about the coming period due to the animosities and misunderstandings among political players.

The rate of unemployment remains very high. The income of the employed population is very low, which is reflected in a low purchasing power. Budget deficits are present at all levels and simultaneously the receivables from the earlier stabilisation package from the International Monetary Fund fell due. This is the reason why the credit rating of Bosnia and Herzegovina was reduced from »B+« to »B«.

### 2011 Main Macroeconomic Indicators

Population	3.9 million
2011 Growth of GDP (estimate)	2.2%
2011 GDP (estimate)	USD 18.3 billion
2011 GDP per capita (estimate)	USD 4,715
2011 Inflation rate (retail prices)(estimate)	3.8%

Source: IMF, World Economic Outlook, September 2011, Agency for Statistics of Bosnia and Herzegovina

### Insurance market

As at the end of 2010, 25 insurance companies operated in the insurance market, of which 14 were domiciled in the Federation of Bosnia and Herzegovina and 11 in the Republic of Srpska. One reinsurance company operated as well.

Most insurance companies still do not conduct their business in line with the norms of insurance and general business ethics, and competition is not adequately controlled. The written premium was 499.4 million convertible marks, 345.9 million of which in the Federation of Bosnia and Herzegovina and 153.5 million convertible marks in the Republic of Srpska. Premium in the Federation of Bosnia and Herzegovina increased by 3.6% compared to 2010, mainly due to an 8.7% increase in premium in the Republic of Srpska. The growth of the insurance market was mainly due to the growth of life insurance premium. Non-life insurance premium accounted for 38.9% and life insurance premium for 61.1% of the total premium.

The insurance companies domiciled in the Republic of Srpska or in the Federation of Bosnia and Herzegovina are expanding their operations to the entire territory of the Federation of Bosnia and Herzegovina. Premium the insurance companies which are domiciled in the Federation of Bosnia and Herzegovina collected in the territory of the Republic of Srpska amounted to KM 22.2 million, which is 19% more than in 2010. Premium underwritten by insurers domiciled in the Republic of Srpska in the territory of the Federation of Bosnia and Herzegovina was KM 11.4 million, or 81% more than in 2010.

Triglav Osiguranje Sarajevo remained the sixth strongest insurer in the Federation of Bosnia and Herzegovina, with 8.9% of the market. The market leader was Agram (Bosna Sunce Osiguranje and Euroherc), with a market share of 22.9%, followed by Sarajevo Osiguranje (17.0%), Croatia (10.8%) and Uniqua (10.3%).

The insurance market leaders in the Republic of Srpska were Jahorina Osiguranje, with 15.9% of the market, Dunav Osiguranje with an 11.2% market share and Bobar Osiguranje with a 10.7% portion. Triglav Osiguranje a.d., Banja Luka remained in the 7<sup>th</sup> place with a 6.6% market share, which is 0.2% less than in 2010.

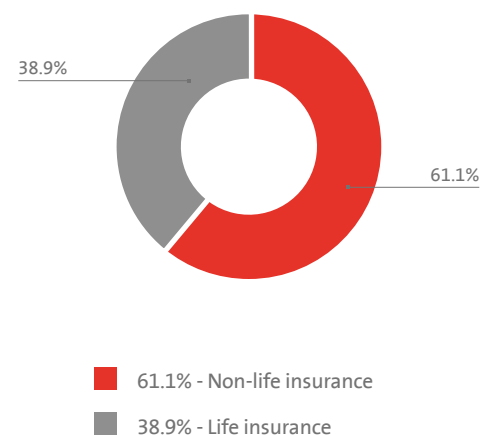
In the insurance market of Bosnia and Herzegovina as a whole, the two insurance companies in the Triglav Group taken together ranked third and held 8.2% of the market.

### 7.4.4 Czech Republic

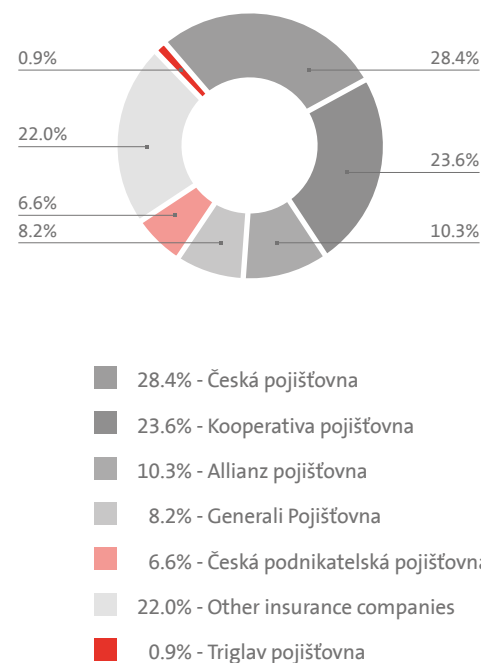
Entry into the euro area is scheduled for 2016. The relatively sound financial sector did not much feel the effects of the recession. The production sector in the Czech economy, among the most developed in the Eastern Europe, generates approximately 40% of the GDP. One of the most important production sectors, which is mainly privately owned, is the car industry. Promising branches include the textile industry and tourism in the service sector.

In 2010 Czech GDP increased by 2.3% (the first positive change since the third quarter of 2008), and in 2011 GDP growth rate was 2.0% (estimate). The GDP growth forecast for 2012 is 1.8%.

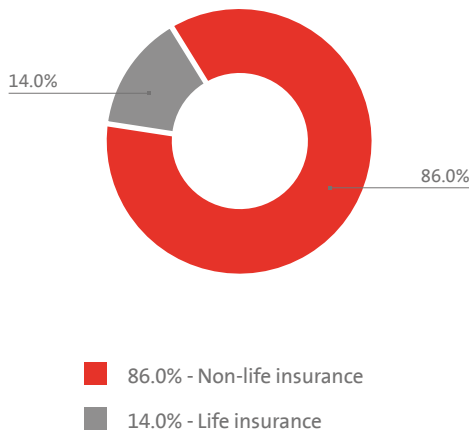
### Premium structure in the Czech insurance market



### Shares in the Czech non-life insurance market



Premium structure in the insurance market of Montenegro



The priority agenda of the government remained unchanged in fiscal and monetary policies, structural reforms and the improvement of labour market flexibility. The unemployment rate in 2011 was 6.7%. In 2011, the inflation rate was 1.8% and anticipated to increase to 2.2% in 2012.

2011 Main Macroeconomic Indicators

Population	10.5 million
2011 Growth of GDP (estimate)	2.0%
2011 GDP (estimate)	USD 220.3 billion
2011 GDP per capita (estimate)	USD 20,925
2011 Inflation rate (retail prices)(estimate)	1.8%

Source: IMF, World Economic Outlook, September 2011

Insurance market

Insurance activities were carried out by 31 companies, which charged CZK 116.4 billion in written premium, representing a 0.3% fall compared to the previous year. In this well developed and strongly competitive market considerable growth was recorded in life insurance (index 101.9), while the non-life segment was lower than in 2010 (index 98.4). The share of non-life insurance products in total premium continued to fall and reached 61.1% in 2011, compared to 61.9% in 2010.

Triglav pojišt`ovna gained a 0.9% market share in non-life insurance, which is the same as in 2010. In terms of gross written premium, the best performing insurers were Česka pojišt`ovna (26.9% market share), Kooperativa pojišt`ovna (19.6% market share) and Allianz pojišt`ovna (8.1% market share).

7.4.5 Montenegro

In the third quarter of 2010 Montenegro came out from the recession caused by the impact of the global financial and economic crisis and in 2011 recorded positive, yet weak, economic growth. The stability of the Montenegrin economy is primarily threatened by the high illiquidity of the real economy, high share of low-quality assets in the banking sector, high default rate, the fast growth of public debt and state guarantees, the budget deficit and fear of the spillover effect from global markets.

In its latest report from March 2010, the rating agency Standard & Poor’s confirmed the BB/B rating for Montenegro for long-term and short-term borrowings in foreign currency and BB+/B for borrowings in the local currency, which is the same as the year before. Also the AAA rating for transfers and convertibility was reconfirmed.

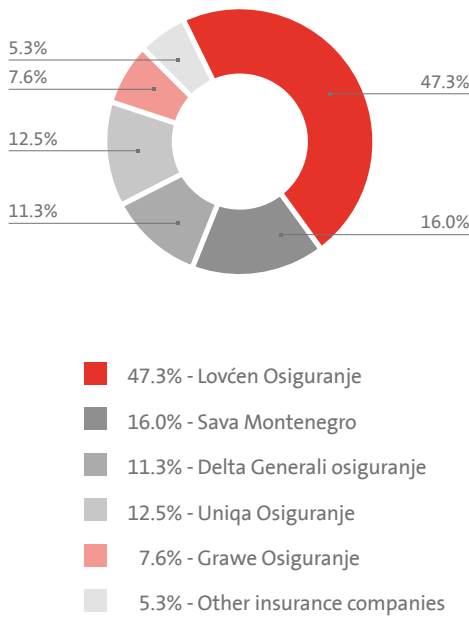
Main economic indicators show the relative stability of Montenegrin economy. In 2011 inflation rate was 3.1% and estimated economic growth 2.0%. Although government consumption was reduced, public debt increased by 2.9 percentage points, remaining far below the Maastricht convergence criteria. The unemployment rate rose by 0.3% compared to 2010 and equalled 11.7%.

2011 Main Macroeconomic Indicators

Population	0.63 million
2011 Growth of GDP (estimate)	2.0%
2011 GDP (estimate)	USD 4.2 billion
2011 GDP per capita (estimate)	USD 6,668
2011 Inflation rate (retail prices)(estimate)	3.1%

Source: IMF, World Economic Outlook, September 2011

Shares in the insurance market of Montenegro





### Insurance market

In the Montenegrin insurance market, insurance activities were carried out by 12 insurance companies, of which 5 were non-life insurance and 7 life insurance. Premium collected by insurance companies amounted to EUR 64.8 million, which was 4.2% more than in 2010. Non-life insurance is far ahead with a 86.0% share. Non-life insurance and life insurance premiums both increased compared to 2010 – by 3.6% and 8.2% respectively.

Lovćen Osiguranje and its subsidiary Lovćen životna osiguranja continued to be the insurance market leader, although its market share declined to 47.3% (in 2010: 52.0%) They were followed by Sava Montenegro (a 16.0% market share) and Delta Generali (a 11.3% market share).

### 7.4.6 Serbia

Despite the global economic crisis, the Serbian economy managed to achieve a GDP growth of 2.0%. The growth rate slowed down in the last half of the year and dropped to only 0.5% in the last quarter. The main driving force of the growth was export, while domestic spending was reduced.

Industrial production slowed down in the second half of the year following the solid growth in the first half, so that at the end of the reporting year it was 1.8% higher compared to 2010. Agricultural production did well, despite the drought. The construction sector saw a slight revival in the first half of 2011, but these signs are feared to be temporary.

The annual inflation rate was 7.9%, which exceeded the expectations of the National Bank of Serbia. The prices of industrial products rose by 16.2%. Registered unemployment rate at the end of the year was 23.7%. Monetary policy saw a downward trend in the reference interest rate, which has remained relatively high and the highest in the region. The foreign currency exchange rate remained relatively stable, despite fluctuations during the year. The factors of the future (in) stability of Serbian currency may be, above all, anticipated inflationary trends (high public debt, budget and foreign trade deficit, new issues of treasury bonds and economic illiquidity).

### 2011 Main Macroeconomic Indicators

Population	7.4 million
2011 Growth of GDP (estimate)	2.0%
2011 GDP (estimate)	USD 46.4 billion
2011 GDP per capita (estimate)	USD 6,267
Inflation rate (retail prices)(estimate)	7.9%

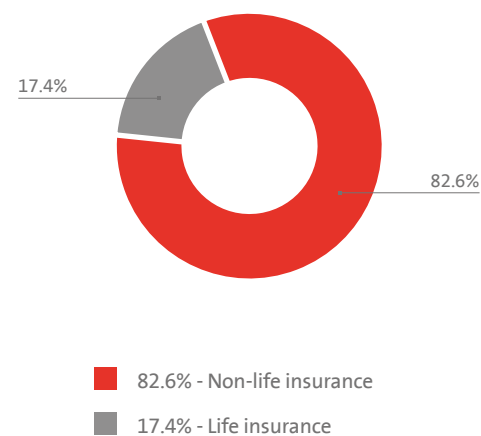
Source: IMF, World Economic Outlook, September 2011

### Insurance market

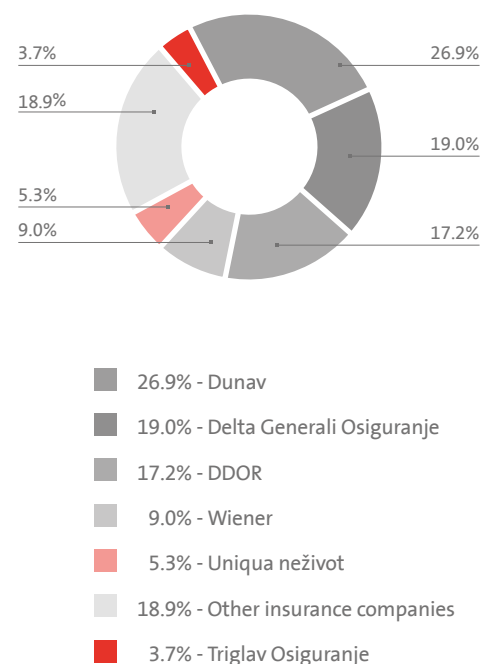
Among 27 insurers (one more than in 2010) in the market, 4 were reinsurance companies and 23 insurance companies, of which 10 were non-life, 7 were life and 6 were composite insurance companies. The top three insurance companies held almost two thirds of the insurance market. There were also many banks, corporations and individuals, acting mostly as insurance brokers or agents. The majority of insurance companies (20) are predominantly foreign-owned, while the biggest insurer, Dunav (26.9% market share) is state-owned.

The share of life insurance products has been on the rise in recent years. Total premium, which increased by 1.4% in 2011 compared to 2010, is still mainly generated by non-life insurance products (82.6% share).

### Premium structure in the Serbian insurance market

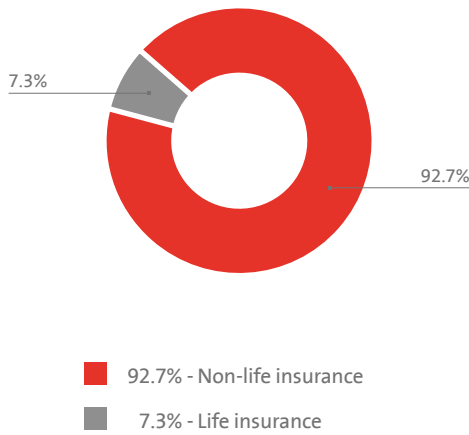


### Shares in the Serbian insurance market





Premium structure in the insurance market of the Former Yugoslav Republic of Macedonia



Zavarovalnica Triglav Osiguranje a.d.o., Belgrade, continued to grow. It increased its written premium by 6.5%, which is 5.1 percentage points above the growth of the insurance market in Serbia. Its market share climbed to 3.7% (2010: 3.5%) and Zavarovalnica Triglav Osiguranje ranked seventh among insurance companies in Serbia.

7.4.7 Former Yugoslav Republic of Macedonia

Following a high GDP growth rate of 5.2% in the first half of 2011, in the third and fourth quarter of 2011 the Macedonian economy faced the consequences of the debt crisis in certain countries of the euro area. Economic growth at the end of the year was slowed down by reduced export demands from EU member states, Macedonia’s strongest economic and strategic partners. The estimated GDP growth was 3.0%. The Macedonian government is pursuing a healthy, integrated macroeconomic policy, is maintaining low public debt, while taking precautions to maintain the stable financial system in the country. The National Bank of the Republic of Macedonia does not anticipate the aggravation of the debt crisis in the euro area to have a significant effect on bank liquidity or on the financial system as a whole. In 2011 the Former Yugoslav Republic of Macedonia managed to maintain the stable exchange rate of the dinar and a low inflation rate of 3.7%. These measures will be carried out in the next year as well.

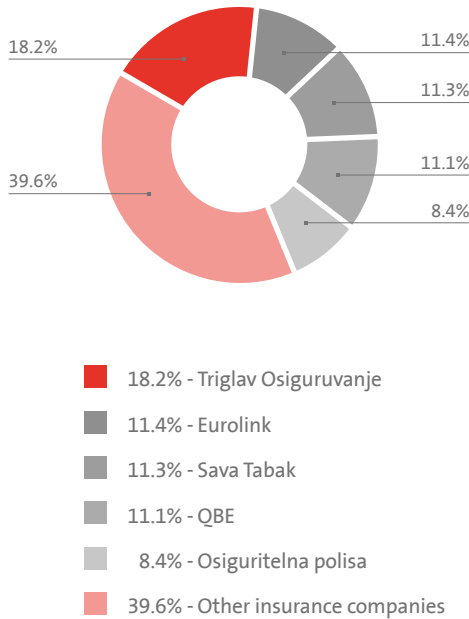
Increased risks from the second half of 2011 will affect development in 2012. The GDP growth trend was too weak for achieving the country’s basic macroeconomic goals, such as restructuring of the economy, decreasing the unemployment rate and increasing the standard of living. The most recent projections, however, show a GDP growth rate between 3 and 3.5% at the utmost. Unemployment rate is high at 30% and the standard of living is among the lowest in Europe.

2011 Main Macroeconomic Indicators

Population	2.1 million
2011 Growth of GDP (estimate)	3.0%
2011 GDP (estimate)	USD 10.3 billion
2011 GDP per capita (estimate)	USD 5,012
2011 Inflation rate (retail prices)(estimate)	3.7%

Source: IMF, World Economic Outlook, September 2011

Shares in the insurance market of the Former Yugoslav Republic of Macedonia



Insurance market

The majority of 15 insurance companies were foreign owned (81% of the total equity of the insurance sector). In Macedonia 11 insurance companies were non-life and 4 were life insurance companies. One of them held a reinsurance licence and, at the same time, offered non-life insurance products. Also operating were 17 insurance brokerage firms and 5 insurance agencies. The five biggest insurers operating in the highly concentrated insurance market booked over 60% of total premium. Due to the structure of their activity the market concentration was particularly high in the segments of life insurance and reinsurance.

Insurance companies wrote MKD 6.8 billion in premium, which represented an increase of 5.0% over 2010. Non-life insurance premium accounted for 92.7% of the total premium in the market. Non-life insurance premium rose by 3.0%, while life insurance premium increased by 40.2%.

Despite the drop in written premium, Triglav Osiguranje remained the market leader in Macedonia. In 2011 it had a 19.7% market share in non-life insurance (in 2010 the market share was 21.7%). It was followed by Eurolink and Sava Tabak, with a 11.4% and 11.3% market share respectively.

## 7.5 Gross written premium for insurance and co-insurance contracts

In 2011, the Triglav Group posted a total of EUR 989.4 million in consolidated gross insurance and co-insurance premium, or 2% less than in 2010. Non-life insurance total was EUR 695.2 million (index 97), life insurance reached EUR 214.0 million (index 97) and health insurance increased to EUR 80.2 million (index 111) in gross written premium.

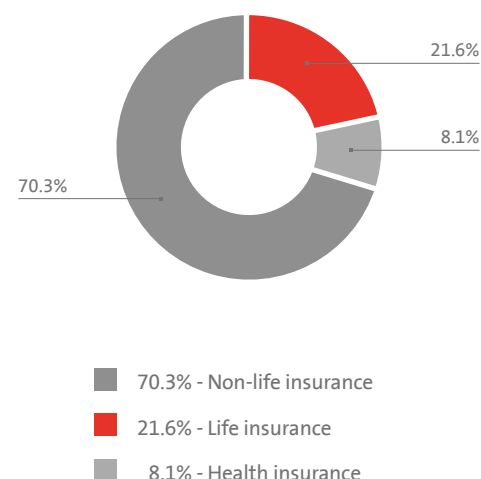
The structure of consolidated written premium was the following:

- non-life insurance accounted for 70.3%,
- life insurance for 21.6% and
- health insurance for 8.1%.

The Triglav Group members (excluding Triglav Re) booked EUR 950.1 million in non-consolidated gross insurance and co-insurance premium, or 2% less than the year before. The trends varied depending on company and market. The written premium of Zavarovalnica Triglav was lower by 3% in comparison with 2010, whilst that of Triglav Zdravstvena zavarovalnica was higher by 10%. Gross written premium grew in Triglav Pojišt'ovna by 2%, in Triglav Osiguranje, Belgrade by 7% and in Triglav Osiguranje, Banja Luka by 6%. Gross written premium was lower in Triglav Osiguranje, Zagreb by 4%, in Triglav Osiguranje, Sarajevo by 3% and in Triglav Osiguruvanje, Skopje by 7%. In Lovćen Osiguranje gross written premium declined by 9%, as the life-insurance portfolio was transferred to its subsidiary Lovćen životna osiguranja.

The trends of non-consolidated gross insurance and co-insurance premium varied depending on company and market.

Gross written premium for insurance and co-insurance in 2011 – Structure



Gross written premium in 2011 by insurance company of the Triglav Group

Insurance company	Gross written insurance premium in 2011			Index			Structure 2011
	Non-life	Life	TOTAL	Non-life	Life	TOTAL	
1 Zavarovalnica Triglav	495,845,884	200,954,814	696,800,698	97	97	97	73.3%
2 Triglav, Zdravstvena zavarovalnica	80,189,702	0	80,189,702	110		110	8.4%
3 Triglav Osiguranje, Zagreb	43,616,189	9,610,263	53,226,452	96	93	96	5.6%
4 Triglav Osiguranje, Sarajevo	13,774,676	1,893,811	15,668,487	94	119	97	1.6%
5 Triglav Pojišt'ovna, Brno	27,431,720	0	27,431,720	102		102	2.9%
6 Lovćen Osiguranje, Podgorica	29,400,964	0	29,400,964	95	0	91	3.1%
7 Triglav Osiguranje, Belgrade	20,183,386	613,849	20,797,235	108	100	107	2.2%
8 Triglav Osiguranje, Banja Luka	5,205,914	0	5,205,914	106		106	0.5%
9 Triglav Osiguruvanje, Skopje	20,107,159	0	20,107,159	93		93	2.1%
10 Lovćen Životna Osiguranja, Podgorica	0	1,269,847	1,269,847				0.1%
<b>TOTAL</b>	<b>735,755,594</b>	<b>214,342,584</b>	<b>950,098,178</b>	<b>98</b>	<b>97</b>	<b>98</b>	<b>100.0%</b>
11 Pozavarovalnica Triglav Re	121,961,264	0	121,961,264	102	0	101	
Consolidation eliminations	-82,342,293	-318,345	-82,660,638	106	133	107	
<b>TOTAL - CONSOLIDATED</b>	<b>775,374,565</b>	<b>214,024,239</b>	<b>989,398,804</b>	<b>98</b>	<b>97</b>	<b>98</b>	

### 7.5.1 Non-life insurance

In total, Triglav Group insurance companies charged EUR 735.8 million of unconsolidated insurance and co-insurance premium from non-life insurance contracts, which is a 2% nominal decrease on the same period the year before. This drop was expected due to the following key reasons:

- Sustained price competition among insurers in the motor vehicle insurance market continued alongside lowering prices of insurance products and premium reductions for large policyholders won through public tenders (stricter tender requirements, competition, participation of insurance brokers and agencies in setting tender requirements and their commissions).
- In mid-2010 the range of motor vehicle insurance was thoroughly changed, due to the increasingly pronounced economic crisis and consequently changed behaviour of policyholders.

The financial effects of the change were felt in the first half of 2011. They primarily consisted of lowering prices and the balancing of two major types of car insurance, i.e. motor liability and comprehensive car insurance (*see also Sections 6.2.1 and 7.2*).

- Efforts continued in order to mitigate the poor technical results recorded in insurance of interests in property as well as in agricultural insurance. The resulting changes caused a decrease in insurance premium and simultaneously consolidated the basis for improving insurance technical results. It should be noted that 2011 saw a significant change in key client management. The reduced number of entry points and higher level of professional services (sales and after-sales) were the main reasons for establishing a centralised organisational unit for key clients. This unit was founded in early 2011.

The largest (36.8%) share in the portfolio of total premium was charged on motor vehicle insurance. The Group collected EUR 144.1 million in **comprehensive car insurance premium**, which was 2% less than the year before. The premium decreased in several members of the Group, while growth was recorded by Triglav Osiguranje, Banja Luka (32% increase), Triglav Osiguranje, Belgrade (25% increase) and Triglav Pojišt'ovna (12% increase). In **motor liability insurance**, the members of the Triglav Group in 2011 posted EUR 205.1 million of written premium: a 9% decline compared to the previous year. Among the Group members, written premium only grew in Triglav Osiguranje, Belgrade (by 10%) and Triglav Osiguranje, Banja Luka (by 5%). The reasons for the lower volume of motor vehicle insurance were stated in the introduction to this section. The new motor vehicle insurance range consists mainly of the renewal of motor vehicle insurance packages, lowering the prices of certain packages and the introduction of additional discounts, targeted at certain client segments, particularly safe drivers, long-term clients and families. In 2011, families were offered an extra 15% discount on motor vehicle insurance for an additional car in the family.

A high 10% growth in written premium was recorded in **health insurance**, mostly on account of the results of Triglav Zdravstvena zavarovalnica, which in June widened its range by one product. After this addition the range included:

- supplementary voluntary health insurance (ZZ11);
- insurance for health resort treatment of injuries (ZZ69);
- additional accident insurance (NZ11);
- insurance for health-resort treatment of traffic injuries (ZZ79); and
- allowance insurance (ZZ75).

Once again, Triglav Zdravstvena zavarovalnica increased its market share in Slovenia.

Once again, Triglav Zdravstvena zavarovalnica increased its market share in Slovenia to 18.7% (at the end of 2010 it was 17.7%). It booked a total of EUR 80.2 million in gross written premium, i.e. EUR 7.5 million more than in 2010. The growth of written premium stems from the successful marketing of supplementary health insurance products and a consequent increase in the portfolio of Triglav Zdravstvena zavarovalnica. In 2011, it included a total of 23,327 supplementary health insurance policies and 4,000 other policies. Among other insurers in the Triglav Group offering health insurance, growth was recorded in Triglav Osiguranje, Banja Luka (index 113), whilst other insurance companies collected less premium than the year before (Triglav Osiguranje, Sarajevo, Triglav Osiguranje, Zagreb and Lovćen Osiguranje). The share of these insurance companies in total health insurance premium accounted for a little more than 1%.

A 2% nominal growth was recorded in property insurance.

In 2011, in the **property insurance class** (fire and natural forces insurance and other damage to property insurance), EUR 166.6 million in premium was recorded, representing a 2% nominal growth. A slightly higher growth of 3% was recorded in other property insurance. The premium from fire and natural forces insurance remained at the same level as in 2010. Zavarovalnica Triglav's share in total premium from proper non-life insurance represents more than 82% (growth index 102). This good result reflects the work of the new key client organisational unit, which acquired several large clients in the first year of its operation. Some newly concluded insurance

policies are »one-off«, which does not, however, diminish the good sales results. The positive results in property insurance could have been even better, if the terms and conditions for agricultural insurance had not been made more stringent. Deductibles without surrender options, stricter terms of risk underwriting and a cap on the sum insured for crops with government co-financing of insurance premiums were introduced in order to improve insurance technical results. These measures lowered the realisation by approximately EUR 2.6 million. In addition to Zavarovalnica Triglav, premium increases were also recorded in Triglav Pojišt'ovna (100% growth), Triglav Osiguranje, Belgrade (8% growth) and Triglav Osiguranje, Banja Luka (6% growth). Other members of the Group earned less premium compared to 2010.

**Accident insurance** represented 5.5% of total written premium, or EUR 51.9 million, nominally. This 7% reduction is primarily the result of the changes in motor vehicle insurance described above. More than a half of the premium in this insurance group arises from two insurance sub-classes taken out simultaneously with car insurance. Premium for AO-plus insurance and driver and passenger accident insurance decreased by more than 10% in nominal terms. The second largest insurance class, collective accident insurance (accounting for more than one third of total accident insurance) also experienced a nominal drop in growth. This decrease in written premium was a result of increasing unemployment and the poor state of the Slovene economy. Trends in the largest insurance sub-classes show that the situation cannot be significantly improved by good sales results in certain smaller accident insurance sub-classes. Good results were achieved with individual accident insurance products and accident insurance of subscribers and consumers, which primarily means the insurance of card owners, bank accounts, etc.

The decrease in group accident insurance written premium was a result of increasing unemployment and the poor state of the Slovene economy.

**General liability insurance** reached 3.7% of the total. In 2011, EUR 35.1 million in premium was recorded, i.e. 2% more than in 2010. This is considered to be a success, as the majority of this insurance class consists of general liability insurance, which recorded a drop in premium due to the poor state of the economy and growing unemployment. Very solid sales results were achieved in product liability insurance, guarantee insurance and most professional liability insurance products (covering the liability of medical doctors, attorneys-at-law or management and supervisory board members) as well as other classes of liability insurance. Most insurance companies within the Triglav Group posted a growth in premium; Zavarovalnica Triglav (its share is almost 84% of total premium) remained at approximately the same level as the 2010 year end, while Triglav Osiguranje, Belgrade and Triglav Osiguruvanje, Skopje collected less premium.

**Credit insurance** accounted for 2.2% of the total premium and accounted for an 8% less premium than the year before. This result is primarily caused by trends in consumer loan insurance, where the premium markedly decreased due to the drop in volume of bank loans. The latter represented the bulk of the premium from credit insurance and therefore, the drop was expected. The performance of other credit insurance sub-classes was solid, especially export credit insurance, domestic trade insurance and overdraft insurance.

**Other classes of non-life insurance** (which accounted for 3.3% of total premium) grew by 11%. These results are mostly due to excellent sales of roadside assistance, which remained the best assistance insurance in the Slovene market, and an increase in the railway insurance premium. Nominal growth was also seen in suretyship insurance, travel insurance, marine insurance, goods in transit insurance and miscellaneous financial loss insurance.

## 7.5.2 Life insurance

In total, Triglav Group members charged EUR 214.3 million in unconsolidated gross written premium from **life insurance** contracts, which represents a 3% decrease on 2010. Their share in total gross written premium was 22.6%.

Clients were more prudent when purchasing long-term insurance policies.

The premium generated by **unit-linked life insurance** totalled EUR 98.0 million or 45.7% of gross written premium in the life insurance class, which was 2% less compared to 2010. In addition to Zavarovalnica Triglav (index 99), unit-linked products are also available from Triglav Osiguranje, Zagreb, which booked a total of EUR 4.3 million in written premium, or 9% less than in 2010.

**Life insurance** accounted for EUR 96.6 million or 45.1% of total premium in the life insurance class. It is estimated that the 4% premium decrease was caused by the continuation of uncertain conditions in the financial markets and the economic crisis, as clients were more prudent when purchasing long-term insurance policies. The decrease in life insurance premium was also affected by the aging of the life insurance portfolio (maturities and surrenders). **Supplementary voluntary pension insurance** (capital redemption insurance) accounted for 9.2% or EUR 19.7 million of the total premium; in this class premium dropped by 7% compared to the year before.

Gross written premium for insurance and co-insurance contracts of the Triglav Group (excluding Pozavarovalnica Triglav Re) and growth indexes per insurance class

Insurance class	Gross written premium			Index		Structure 2011
	2011	2010	2009	2011/2010	2010/2009	
1 Accident insurance	51,881,696	55,537,351	61,127,665	93	91	5.5%
2 Health insurance	80,888,967	73,602,675	68,318,518	110	108	8.5%
3 Comprehensive car insurance	144,099,735	147,436,763	145,462,647	98	101	15.2%
4 Property insurance	166,632,065	163,502,412	158,619,230	102	103	17.5%
5 Motor liability insurance	205,077,707	224,668,795	243,719,749	91	92	21.6%
6 General liability insurance	35,070,402	34,275,095	35,217,221	102	97	3.7%
7 Credit insurance	20,598,151	22,320,290	22,706,207	92	98	2.2%
8 Other non-life insurance	31,506,871	28,288,224	27,673,512	111	102	3.3%
NON-LIFE INSURANCE	735,755,594	749,631,606	762,844,748	98	98	77.4%
9 Life insurance	96,651,038	100,311,203	106,692,704	96	94	10.2%
10 Unit-linked life insurance	98,001,240	99,782,278	99,269,804	98	101	10.3%
11 Capital redemption insurance	19,690,306	21,280,476	19,781,923	93	108	2.1%
LIFE INSURANCE	214,342,584	221,373,956	225,744,431	97	98	22.6%
TOTAL	950,098,178	971,005,562	988,589,179	98	98	100.0%

Pozavarovalnica Triglav Re booked 1% more reinsurance premium than the year before.

### 7.5.3 Gross reinsurance premium written for Pozavarovalnica Triglav Re

Pozavarovalnica Triglav Re booked a total of EUR 121.9 million in gross reinsurance premium, or 1% more than the year before (compared to 5% growth in 2010). The increase in gross reinsurance premium was generated predominantly by an 18% growth of the second highest insurance class, i.e. other damage to property insurance, and is the result of a higher gross reinsurance premium from facultative contracts with the parent company. Nominal value increase were also seen in miscellaneous financial loss insurance, general liability insurance, accident insurance, suretyship insurance, health insurance and aircraft insurance, marine insurance, credit insurance and assistance insurance. The largest class, fire and natural forces insurance, recorded a 2% drop in premium. In 2011 the business outside the Triglav Group totalled 6% less than the year before. The year-end profit in 2011 was affected by the economic and financial crisis, extreme weather conditions and frequent natural disasters.

The market position of the reinsurance company Pozavarovalnica Triglav Re was further strengthened by the confirmation of the »A« long-term rating and financial strength rating, assigned by Standard & Poor's on 21 November 2011 (see also Section 3, Strategy and Plans). The confirmation of the financial stability of Pozavarovalnica Triglav Re's financial operations increases its potential to access reinsurance markets.

This reinsurance company provides high quality reinsurance coverage to the Triglav Group. In accordance with the Triglav Group's reinsurance scheme in Slovenia and abroad, Pozavarovalnica Triglav Re can increasingly concentrate on acquiring cedants outside the Group. Its growth will continued to be based on a conservative approach to assuming quality risks and on maintaining a stable and profitable portfolio.

## 7.6 Gross claims paid

Claims paid totalled EUR 616.5 million or 1% more than 2010. In **non-life insurance**, the Triglav Group recorded EUR 413.5 million (index 92), in **life insurance** EUR 140.5 million (index 131) and in **health insurance** EUR 62.5 million (index 109) in gross claims.

Excluding Pozavarovalnica Triglav Re, the members of the Triglav Group posted EUR 593.5 million of non-consolidated gross claims, which is approximately the same as in the preceding year (index 100).

### Gross claims paid in 2011 by insurance company of the Triglav Group in EUR

Insurance company	Gross claims paid in 2011			Index			Structure 2011
	Non-life	Life	TOTAL	Non-life	Life	TOTAL	
1 Zavarovalnica Triglav	297,708,259	136,054,516	433,762,775	88	133	99	73.1%
2 Triglav Zdravstvena zavarovalnica	62,554,304	0	62,554,304	109		109	10.5%
3 Triglav Osiguranje, Zagreb	24,638,774	3,090,383	27,729,157	92	99	93	4.7%
4 Triglav Osiguranje, Sarajevo	7,127,664	565,484	7,693,148	92	48	86	1.3%
5 Triglav Pojišt'ovna, Brno	16,690,971	0	16,690,971	100		100	2.8%
6 Lovćen Osiguranje, Podgorica	17,522,132	0	17,522,132	101	0	97	3.0%
7 Triglav Osiguranje, Belgrade	10,462,014	255,177	10,717,191	142	163	142	1.8%
8 Triglav Osiguranje, Banja Luka	1,688,839	0	1,688,839	99		99	0.3%
9 Triglav Osiguruvanje, Skopje	14,649,702	0	14,649,702	106		106	2.5%
10 Lovćen životna osiguranja, Podgorica	0	517,131	517,131				0.1%
<b>TOTAL</b>	<b>453,042,659</b>	<b>140,482,691</b>	<b>593,525,350</b>	<b>93</b>	<b>131</b>	<b>100</b>	<b>100.0%</b>
11 Pozavarovalnica Triglav Re	55,572,856	0	55,572,856	90	0	90	
Consolidation eliminations	-32,555,698	0	-32,555,700	77	0	77	
<b>TOTAL - CONSOLIDATED</b>	<b>476,059,817</b>	<b>140,482,689</b>	<b>616,542,506</b>	<b>94</b>	<b>131</b>	<b>101</b>	

### 7.6.1 Non-life insurance

The comparison of growth rates between claims and insurance premium in **non-life insurance** shows that claims grew at a rate 4 index points lower than insurance premium. In comparison with the year before, non-consolidated gross claims fell by 7%, totalling EUR 453.0 million.

Claims related to **motor liability insurance** represented 20.8% of total gross claims settled by the Triglav Group. Total claims met amounted to EUR 123.5 million, which was 6% less than in 2010. The slow growth of claims in this insurance class was caused mostly by the slower growth in gross claims posted by Zavarovalnica Triglav (index 91), in part due to the positive effect of the changed legislation on road traffic safety in Slovenia, better road infrastructure and the failure of numerous construction companies, whose vehicle fleets were insured by Zavarovalnica Triglav and which were significantly increasing the frequency and the amount of claims paid. Slower growth rates in gross claims was also recorded by Triglav Osiguranje, Zagreb, Triglav Osiguranje, Sarajevo and Triglav Osiguruvanje, Skopje.

A 12% decrease in gross claims paid was recorded in the **comprehensive car insurance class**. Claims paid amounted to EUR 107.6 million, or 18.1% of total amount of settled claims. A decrease in gross claims paid in this insurance class was recorded by the majority of the Triglav Group insurance companies, including Triglav Osiguranje, Zagreb, Zavarovalnica Triglav and Lovćen Osiguranje, which was mainly the consequence of the lower number of mass claims due to devastating weath-

The comparison of growth rates between claims and insurance premium in non-life insurance shows that claims grew at a rate 4 index points lower than insurance premium.

er events. A significant growth in claims in this insurance class was recorded at Triglav Osiguranje, Belgrade (index 126), while slower growth was booked by Triglav Pojišt'ovna (index 108) and Triglav Osiguranje, Banja Luka (index 105).

In **property insurance**, total claims paid amounted to EUR 81.7 million or 14% less than the year before. A favourable index and a lower amount of claims settled are to a great extent a consequence of a smaller number and volume of claims due to storms, hail, floods and other natural disasters. The lower amount of claims settled was also a result of a smaller number of claims settled for fire and machinery breakdown insurance, home content insurance and DOM home insurance package.

In **health insurance**, gross claims increased by 9% due to an increase in the share and costs transferred from compulsory to supplementary health insurance, a higher number of insurance holders, higher prices of medical goods and services and a growing proportion of elderly insurance holders. Equalisation scheme expenses for supplementary health insurance totalled EUR 6.7 million, which is EUR 800,000 more than in 2010 (a 14% increase).

Gross claims **from general liability insurance** rose by 3%. This growth was mainly the result of higher amounts of claims paid in installation insurance, guarantee insurance and product liability insurance. A 6% reduction in gross claims should be noted in the largest insurance subclass, general liability insurance, which represents almost 83% of this insurance class. This result may be attributed to the Company's new business approach, i.e. recasting the terms and conditions, policyholders' portfolio analysis in recent years and measures adopted to strengthen diligence in risk underwriting. Analyses of past business co-operation with individual policyholders are proving to be ever more important.

Gross claims paid in **accident insurance** dropped by 8%, mostly due to a considerably lower amount of claims settled from AO-plus insurance and collective accident insurance, which account for the majority of accident insurance claims.

The developments in the **credit insurance** area are closely related to the financial crisis. A total reduction in gross claims in this insurance class by 6% can therefore be seen as a success. Gross claims in the largest insurance subclass, general liability insurance (65% share), decreased by 21%.

Claims in **other non-life insurance** also decreased. Contrary to the high growth of gross claims in previous years (12% in 2010 and 50% in 2009), other non-life insurance recorded a 7% decrease. This was mostly due to a drop in miscellaneous financial loss insurance (index 59), aircraft insurance (index 6), marine insurance (index 64) and assistance insurance, the largest class in this group (index 98).

### 7.6.2 Life insurance

Non-consolidated gross claims paid in **life insurance** totalled EUR 140.5 million and were 31% higher than in 2010. Claims in the life insurance class accounted for 23.7% of all claims paid, or 5.6 percentage points more than the year before.

The bulk of all claims settled is accounted for by the **life insurance class** (life assurance, annuity insurance, voluntary pension insurance), which totalled EUR 88.2 million, or 4% more than one year earlier. The amount of settled claims experienced a high growth in **unit-linked life insurance** (index 151) and **supplementary voluntary pension insurance**, with a growth index of 623. The increase in life insurance was caused by maturities due to the aging of the portfolio and surrenders.

The bulk of all claims settled is accounted for by the life insurance class.



Gross claims paid by member of the Triglav Group (excluding Pozavarovalnica Triglav Re) and growth indexes by insurance class

in EUR

Insurance class	Gross claims paid			Index		Structure 2011
	2011	2010	2009	2011/2010	2010/2009	
1 Accident insurance	26,272,057	28,429,650	30,563,993	92	93	4.4%
2 Health insurance	63,136,259	57,892,635	51,188,149	109	113	10.6%
3 Comprehensive car insurance	107,558,697	121,730,767	130,041,158	88	94	18.1%
4 Property insurance	81,736,961	94,635,842	116,175,591	86	81	13.8%
5 Motor liability insurance	123,532,936	131,105,452	142,688,550	94	92	20.8%
6 General liability insurance	19,973,854	19,367,906	23,693,252	103	82	3.4%
7 Credit insurance	16,550,627	17,692,229	18,162,036	94	97	2.8%
8 Other non-life insurance	14,281,268	15,312,159	13,724,473	93	112	2.4%
NON-LIFE INSURANCE	453,042,659	486,166,641	526,237,201	93	92	76.3%
9 Life insurance	88,162,604	84,817,529	63,918,396	104	133	14.9%
10 Unit-linked life insurance	27,976,054	18,568,703	14,120,278	151	132	4.7%
11 Capital redemption insurance	24,344,033	3,904,953	2,627,827	623	149	4.1%
LIFE INSURANCE	140,482,691	107,291,185	80,666,500	131	133	23.7%
<b>TOTAL</b>	<b>593,525,350</b>	<b>593,457,825</b>	<b>606,903,702</b>	<b>100</b>	<b>98</b>	<b>100.0%</b>

### 7.6.3 Gross claims paid by Pozavarovalnica Triglav Re from reinsurance contracts

Gross claims paid from reinsurance contracts by Pozavarovalnica Triglav Re totalled EUR 55.6 million, or 10% less than the preceding year. This significant decrease was caused by lower gross claims settled in the Triglav Group in other classes, i.e. damage to property insurance and land motor vehicle insurance, due to favourable loss events in Eastern and South Europe. Gross claims settled in general liability insurance were higher by as much as 134% (due to a claim settlement with a large policyholder).

Gross claims paid in business outside the Triglav Group totalled 19% more, which was above all a result from claims paid for devastating events in 2011 and 2010. The most significant natural disaster, the earthquake and tsunami in Japan, had the greatest impact on Pozavarovalnica Triglav Re's business in 2011, followed by the earthquake in New Zealand, severe floods in Australia and Copenhagen, Denmark, and the most severe monsoon rainfall in Thailand in recent decades, which lasted for as long as four months. In business with the Triglav Group, there were no extraordinary loss events with significant impact on Pozavarovalnica Triglav Re's operations.

## 7.7 Gross operating costs

Total consolidated gross operating costs of the Triglav Group reached EUR 286.4 million and were 2% lower than the year before. Gross operating costs for **non-life insurance** came to EUR 190.8 million (index 98), in the **life-insurance** segment they amounted to EUR 37.2 million (index 99), in **health insurance** they totalled EUR 6.9 million (index 85) and in **non-insurance activities**, they were EUR 51.6 million (index 97).

Acquisition costs (fees and charges) totalled EUR 30.9 million and increased by 7% over the preceding year. The costs of the acquisition of goods sold amounted to EUR 24.5 million and were 10% lower than the year before, while depreciation costs were EUR 11.6 million and went up 3% compared to 2010. Labour costs totalling EUR 136.2 million, or 4% less than in 2010, accounted for the majority of operating costs (46.1%). Costs of services provided by natural persons totalled EUR 3.0 million, representing a decrease of 20%, while other operating costs remained at the same level as the year before (EUR 89.2 million).

The total consolidated gross operating costs of the Triglav Group were 2% lower than the year before.

Total insurance business gross operating costs (EUR 234.6 million) decreased by 2% from 2010. The increase in insurance business operating costs was the same as the growth of gross written premium. The share of insurance business operating costs in gross written premium was thus 23.7%, which is the same as in 2010.

In total insurance business gross operating costs, broken down by functional groups, the costs of insurance contract acquisition accounted for 55.6%, or 0.4 percentage points more than in the preceding year, followed by 11.5% in assessment costs (11.4% in 2010), 1.9% in expenses arising from asset management (the same as in 2010), while other operating expenses represented 30.9%, down 0.6 percentage points compared to the year before.

### Gross operating costs by nature

Natural type of costs	in EUR					
	Gross operating expenses			Index		Structure 2011
	2011	2010	2009	2011/2010	2010/2009	
1. Acquisition costs (fees and charges)	30,926,417	28,872,958	31,309,074	107	92	10.5%
2. Cost of goods sold	24,487,665	27,122,451	24,423,372	90	111	8.3%
3. Depreciation of operating assets	11,598,595	11,231,762	12,497,195	103	90	3.9%
4. Labour costs	136,195,600	141,905,945	144,138,700	96	98	46.1%
- wages and salaries	96,152,794	99,924,116	101,302,896	96	99	32.5%
- social security and pension insurance costs	22,652,065	22,772,526	23,662,385	99	96	7.7%
- other labour costs	17,390,741	19,209,303	19,173,419	91	100	5.9%
5. Costs of services provided by natural persons other than SPs together with pertaining taxes	3,043,158	3,783,322	3,793,934	80	100	1.0%
6. Other operating costs	89,237,493	89,253,813	81,341,661	100	110	30.2%
- costs of entertainment, advertising, trade shows	17,482,936	17,864,671	16,535,312	98	108	5.9%
- costs of material and energy	9,929,943	9,673,483	9,288,991	103	104	3.4%
- maintenance costs	8,527,111	8,780,727	9,017,548	97	97	2.9%
- reimbursement of labour-related costs	4,885,484	5,796,068	4,884,354	84	119	1.7%
- costs of intellectual and personal services	3,817,644	2,768,653	3,272,132	138	85	1.3%
- costs not related to performance, excluding insurance	2,623,521	3,754,571	3,287,102	70	114	0.9%
- costs of services - transport and communications	5,096,185	5,340,285	5,199,290	95	103	1.7%
- costs for insurance premiums	2,002,248	1,850,330	1,722,507	108	107	0.7%
- payment transaction costs and banking services	3,980,632	4,096,357	4,117,482	97	99	1.3%
- rents	7,692,983	6,532,582	6,739,159	118	97	2.6%
- costs of services of professional training	1,040,200	1,070,049	891,383	97	120	0.4%
- other costs of services	22,158,606	21,726,037	16,386,401	102	133	7.5%
<b>TOTAL operating costs</b>	<b>295,488,928</b>	<b>302,170,251</b>	<b>297,503,936</b>	<b>98</b>	<b>102</b>	<b>100.0%</b>
Consolidation eliminations	-9,090,898	-9,031,929	-9,001,966	101	100	
<b>TOTAL</b>	<b>286,398,030</b>	<b>293,138,322</b>	<b>288,501,970</b>	<b>98</b>	<b>102</b>	

## 7.8 Risk equalisation

Risk equalisation within equalisation capacities was 92%.

In 2011 Triglav Group equalised 92% of the risks within its own equalisation capacities. Within the Group's equalisation capacities, losses were covered by the current inflow of technical premium by the insurance class and allocated insurance contract provisions. The Triglav Group was able to equalise risks that exceeded its own equalisation capabilities by reinsurance and, to a lesser extent, by co-insurance arrangements.

### 7.8.1 Insurance technical provisions

As at the last day of 2011, the Triglav Group allocated EUR 2,234.1 million to gross insurance technical reserves, which are the basis for balanced operations and ensure the long-term safety of our insured parties. Compared to 2010, the total amount of gross provisions decreased by 2%, with provisions for non-life insurance decreasing by 2% and provisions for life insurance by 1%.

Provisions by type as at 31 December 2011, compared to the same day of 2010:

- **Gross provisions for unearned premiums** decreased by 2% and reached EUR 291.7 million. Unearned premium from non-life insurance amounted to EUR 291.3 million (index 98), while unearned premium from life insurance totalled EUR 0.4 million, which was 17% more than one year earlier;
- **Gross provisions for outstanding claims** decreased by 1% and amounted to EUR 705.5 million. The decrease is the result of the reduction in claims due to implementing measures in risk underwriting and portfolio selection and a lower number of mass natural disaster claims. Claims provisions from non-life insurance totalled EUR 684.8 million (index 99) and those from life insurance EUR 20.6 million (index 96).
- **Mathematical provisions** stood at EUR 1,210.0 million, representing a 1% decrease over last year. Of the total amount of mathematical provisions, EUR 685.2 million originated from the long-term business fund backing life insurance, EUR 158.1 million from the long-term business fund backing SVPI, EUR 2.2 million from the long term business fund backing SVPI, i.e. annuities, and EUR 364.5 million from the long-term business fund backing unit-linked life insurance. The main reasons for lower provisions are the increase in number of surrendered supplementary voluntary pension insurance due to the completion of a 10-year saving period and a reduction in provisions for unit-linked life insurance, which is the result of a general decrease in value of investments linked to the insurance assets.
- **Provisions for bonuses and rebates** decreased by 7% to EUR 16.6 million;
- **Other insurance technical provisions** totalled EUR 10.4 million or 46% less than in 2010, primarily due to the decrease in provisions for unexpired risk, the value of which is based on insurance technical results by individual insurance class. The improvement in these results caused a decrease in provisions.

The two main reasons for lower mathematical provisions are the increase in number of surrendered supplementary voluntary pension insurance and a general decrease in the value of investments linked to the unit-linked life insurance assets.

#### Gross insurance technical provisions as at 31 December 2011

in EUR

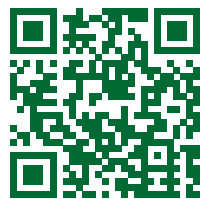
	Gross insurance technical provisions			Index	
	31. 12. 2011	31. 12. 2010	31. 12. 2009	2011/2010	2010/2009
Unearned premium	291,740,398	296,367,451	301,267,271	98	98
Mathematical provisions	1,209,960,825	1,225,930,838	1,104,651,736	99	111
Claims provisions	705,464,250	711,728,317	711,229,696	99	100
Provisions for bonuses and rebates	16,599,643	17,836,389	19,364,696	93	92
Other insurance technical provisions	10,377,656	19,052,894	25,250,664	54	75
<b>Insurance technical provisions</b>	<b>2,234,142,772</b>	<b>2,270,915,889</b>	<b>2,161,764,063</b>	<b>98</b>	<b>105</b>

### 7.8.2 Reinsurance

The Triglav Group allocated EUR 79.2 million of reinsurance premium to external equalisation, which was 8% more than in 2010. Reinsurance premium accounts for 8.0% of total gross written premium. The change in gross premium reserves related to reinsurers' share amounted to EUR 3.2 million, which was as much as 95% more than one year earlier. An amount of EUR 23.2 million was received from reinsurance (index 76). Gross claims provisions for reinsurers' share increased by EUR 2.9 million, whereas EUR 2.5 million was received from reinsurance commissions, which led to a negative reinsurance result of EUR -47.5 million.







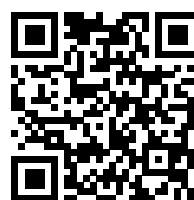
Video Everything Will Be Alright  
(Slovene)

Come rain or shine,  
whatever life has in store for us,  
we always maintain our integrity.  
The guiding motif for Triglav employees  
and the basis of development and  
evolution within the company is ethical and moral conduct.



Compliance with the principles, standards and rules set out in the Code of Good Business Practices of Zavarovalnica Triglav is the foundation of all of the Company's other documents and acts.

In 2011, Zavarovalnica Triglav signed the Declaration of Fair Business upon the proposal of the Global Compact Slovenia Network. It joined the United Nations' effort for the prevention of corruption and bribery in business relations. An anti-corruption clause is built into all business agreements exceeding the value of 10,000 euros.



Web publication on signing the  
Declaration of Fair Business