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**REPORT**  
**on the state of the insurance sector in the Republic of Srpska**  
**for the period from 1 January 2017 to 31 December 2017**

No: UO-12/18  
Date: 13 June 2018

Banja Luka, June 2018

# TABLE OF CONTENTS

<b>INTRODUCTORY WORD .....</b>	<b>5</b>
<b>1. STRUCTURE OF THE SECTOR.....</b>	<b>7</b>
<b>2. INSURANCE.....</b>	<b>8</b>
2.1. Insurance market .....	8
2.1.1. Participants in the insurance market .....	8
2.1.1.1. Insurance companies.....	8
2.1.1.2. Insurance agents and brokers.....	10
2.1.1.3. Protection Fund of the Republic of Srpska.....	10
2.1.1.4. Certified actuaries .....	11
2.1.2. Insurance market development indicators.....	11
2.1.3. Premium written in the insurance market of the Republic of Srpska .....	12
2.1.4. Market structure and concentration.....	13
2.1.5. Premium written per insurance company.....	14
2.1.6. Portfolio structure .....	16
2.1.7. Premium written through insurance agents and brokers.....	18
2.1.7.1. Premium written through insurance agents and brokers in the insurance market in the Republic of Srpska.....	18
2.1.7.2. Premium of the insurance companies with HQ in the Republic of Srpska written through insurance agents and brokers.....	20
2.2. Balance structure.....	21
2.2.1. Balance sheet.....	21
2.2.2. Income statement .....	26
2.2.3. Consolidated financial statements.....	29
2.3. Financial and technical indicators.....	29
2.3.1. Compliance with the capital adequacy requirements.....	29
2.3.2. Calculation and coverage of technical reserves by the prescribed types of assets ..	31
2.3.2.1. Total calculated technical reserves .....	31
2.3.2.2. Calculation and funds for coverage of technical reserves for non-life insurance	32
2.3.2.3. Calculation and funds for coverage of technical reserves for life insurance ...	34
2.3.3. Comparative overview of key indicators .....	36
2.3.4. Indicators of paid claims and other compensations from the insurance .....	36
2.3.5. Technical result .....	38
2.3.6. Loss ratio, expense ratio and combined ratio.....	39
2.3.7. Profitability indicators.....	40
2.3.8. Other performance indicators.....	40
<b>3. VOLUNTARY PENSION INSURANCE .....</b>	<b>42</b>
3.1.1. Company for management of voluntary pension fund.....	42
3.1.2. Voluntary pension fund.....	44

Table 1: Insurance companies from RS .....	8
Table 2: Ownership structure in the insurance companies from RS.....	9
Table 3: Number and qualification structure of employees in the insurance companies from RS.....	9
Table 4: Claims towards the Protection Fund .....	11
Table 5: Premium and macroeconomic indicators.....	12
Table 6: Insurance premium written in the market of the Republic of Srpska .....	12
Table 7: Share of the insurance companies from RS and the branch offices of the companies from FBiH in the market of the Republic of Srpska .....	13
Table 8: Share of the insurance companies from RS and the branch offices of the companies from FBiH in the total premium written in the market of the Republic of Srpska, by peer group .....	14
Table 9: Premium written by insurance company from RS.....	15
Table 10: Premium written by branch office of the insurance companies from FBiH.....	16
Table 11: Total premium written by the insurance companies from RS, by type of insurance	16
Table 12: Premium written through insurance agents and brokers in the market of the Republic of Srpska.....	19
Table 13: Premium written through insurance agents and brokers in the market of the Republic of Srpska, by type of insurance .....	19
Table 14: Premium of the insurance companies written through insurance agents and brokers, by type of insurance .....	20
Table 15: Assets – total for all insurance companies from RS .....	21
Table 16: Liabilities – total for all insurance companies from RS .....	23
Table 17: Income statement – total for all insurance companies from RS .....	26
Table 18: Compliance with the capital adequacy requirements .....	30
Table 19: Amount of total insurance claims paid by type of insurance.....	36
Table 20: Efficiency in the settlement and payment of insurance claims.....	37
Table 21: Efficiency in the settlement and payment of insurance claims for motor vehicle liability insurance.....	38
Table 22: Technical result.....	38
Table 23: Loss ratio, expense ratio and combined ratio .....	39
Table 24: Profitability indicators .....	40
Table 25: Other performance indicators .....	40
Table 26: Balance sheet of the company for voluntary pension fund management .....	42
Table 27: Income statement of the company for voluntary pension fund management .....	43

### **Charts**

Chart 1: Premium written by insurance company from RS .....	15
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Chart 2: Cumulative growth rate of the total premium written by the insurance companies from RS .....	17
Chart 3: Total premium written by the insurance companies from RS, by type of insurance .	18
Chart 4: Total non-life insurance premium written by the insurance companies from RS .....	18
Chart 5: Structure of operating assets of the insurance companies from RS .....	21
Chart 6: Structure of liabilities of the insurance companies from RS .....	24
Chart 7: Capital of the insurance companies from RS.....	25
Chart 8: Total calculated technical reserves of all insurance companies from RS .....	31
Chart 9: Total calculated technical reserves for non-life insurance.....	32
Chart 10: Overview of the calculated technical reserves for non-life insurance by insurance company from RS .....	32
Chart 11: Structure of the investments of funds for coverage of the total calculated technical reserves for non-life insurance .....	33
Chart 12: Total calculated technical reserves for life insurance .....	34
Chart 13: Overview of the calculated technical reserves for life insurance by insurance company from RS .....	34
Chart 14: Structure of the investments of funds for coverage of the total calculated technical reserves for life insurance .....	35
Chart 15: Changes in the calculated technical reserves, share capital and premium written ....	36
Chart 16: Total insurance claims paid (life and non-life insurance).....	37

## INTRODUCTORY WORD

In this reporting period, the first company for management of voluntary pension fund commenced working, i.e. the first voluntary pension fund was organised. Therefore, apart from the analysis of the state of insurance field, the report on the state of the insurance sector in the Republic of Srpska for 2017 contains for the first time an analysis of the state of voluntary pension insurance field.

A total of 14 insurance companies with the headquarters (HQ) in the Republic of Srpska and 11 branch offices of the insurance companies from FBiH operated in the Republic of Srpska in 2017. The market concentration indicators show that there is fairly strong competition in the insurance market of the Republic of Srpska.

The overall premium written in the insurance market of the Republic of Srpska totalled BAM 213.3 million, representing an increase of 7.6% in comparison with the previous year. The non-life insurance premium increased by 7.8%, and the life insurance premium increased by 6.7%. Although the trend of growth of the life insurance premium in the market of the Republic of Srpska continued, this premium has not yet reached the level of the comparative insurance markets of the countries in the region. A total of BAM 53.9 million was written through agents and brokers in the insurance market of the Republic of Srpska, which is 25.2% of the total premium written in the market of the Republic of Srpska.

The premium written by the insurance companies with HQ in the Republic of Srpska increased by 10.9% in comparison with the previous year, and it totalled BAM 207.9 million, including the premium from the FBiH market. The premium of the motor third party liability insurance (MTPL insurance) continued to have a dominant share in the total premium written by the insurance companies with HQ in the Republic of Srpska, and it totalled 64.6% in 2017.

The total net result in the accounting period is a profit in the amount of BAM 28.7 million, which resulted in the rate of return on equity of 20.1%. The total technical result was also positive, and it totalled BAM 106.5 million, representing an increase of 12.8% in comparison with the previous year. The total balance sum increased by 8.7%, and the total balance capital increased by 8.3%, totalling BAM 138.4 million. The total calculated technical reserves increased by 10.7%.

At the end of the reporting period, the surplus of total share capital was 52.2% and the surplus of total available capital was 39.0%, in comparison with the prescribed amounts. Apart from reporting the overall compliance with the capital adequacy requirements, all insurance companies with HQ in the Republic of Srpska complied with the prescribed capital adequacy requirements at the end of 2017. In addition to that, all companies continued to provide additional funds for maintenance of solvency, in the form of coverage of 50% of the minimum guarantee fund by the prescribed forms, which can only be used for protection of the insured persons, insurance beneficiaries and third injured parties.

The insurance companies with HQ in the Republic of Srpska paid a total of BAM 55.9 million for their liabilities assumed under non-life insurance contracts, which represents an increase of 4.0% in comparison with the previous year. The total compensations paid under life insurance contracts increased by 1.8%, and they totalled BAM 7.8 million.

There were no significant fluctuations regarding the loss ratio and the expense ratio in the reporting period. The combined ratio was below 100, which means that insurance activities produced a positive result, and that the premium was sufficient to cover the liabilities assumed under insurance contracts.

The above-mentioned facts confirm that the insurance companies with HQ in the Republic of Srpska complied with the prescribed capital adequacy requirements and had financial capacity to settle the liabilities assumed under insurance contracts, and that the profitability was at a satisfactory level. However, regardless of the increase in the insurance premium, it is evident that there is potential and a need for further increase of the insurance market/premium in the types of voluntary insurance.

The activities in the voluntary pension insurance market were not intensive, because the only company for management of voluntary pension fund organised a voluntary pension fund and fulfilled the requirements to pursue the activity only in the third quarter of 2017. The first payment to the voluntary pension fund was made on 30 November 2017, and a total of 16 members paid their contribution by the end of the reporting period.

Director,  
Slaven Dujaković

Banja Luka, June 2018

## 1. STRUCTURE OF THE SECTOR

In this report, the insurance sector includes the insurance business (hereinafter referred to as: insurance) and the activity of organisation and management of voluntary pension funds (hereinafter referred to as: voluntary pension insurance).

According to the Law on Insurance Companies (Official Gazette of the Republic of Srpska, 17/05, 01/06, 64/06, 74/10 and 47/17), the insurance activity is the activity of concluding and enforcing insurance and reinsurance contracts, and the activity of insurance agents and brokers. Apart from that, this Law regulates establishment, operation, supervision and termination of work of insurance companies and branch offices of the insurance companies from FBiH, and the Insurance Agency of the Republic of Srpska (hereinafter referred to as: Agency) was established pursuant to it. Insurance companies may pursue insurance as their sole activity. Apart from that, the insurance regulatory framework is comprised of:

- Law on Insurance Intermediaries and Insurance and Reinsurance Brokerage (Official Gazette of the Republic of Srpska, 47/17), which regulates the rules for intermediation and brokerage in insurance and reinsurance, the requirements for issuance and expiration of authorisations and licences in this segment, and the supervision of activity of intermediation and brokerage in insurance and reinsurance, and
- Law on Compulsory Traffic Insurance (Official Gazette of the Republic of Srpska, 82/15), which prescribes the types and rules of compulsory traffic insurance.

Pursuant to the Law on Voluntary Pension Funds and Pension Plans (Official Gazette of the Republic of Srpska, 13/09), companies for management of voluntary pension funds pursue the activity of organisation and management of voluntary pension funds and other pension funds established pursuant to separate laws. Apart from that, this Law regulates organisation and management of voluntary pension funds, establishment, activity and operation of the company for management of voluntary pension funds, activities and obligations of the custodian bank, the responsibility of the Agency for regulation and supervision of companies for management of voluntary pension funds, organisation of pension plans, and other matters of importance to the functioning of voluntary pension funds

Activity of insurance and voluntary pension insurance is also regulated by the bylaws adopted by the Agency.

The laws and bylaws which regulate the insurance sector are also available on the website of the Agency ([www.azors.rs.ba](http://www.azors.rs.ba)).

## 2. INSURANCE

### 2.1. Insurance market

#### 2.1.1. Participants in the insurance market

The participants in the insurance market supervised by the Agency are: insurance companies with HQ in the Republic of Srpska, branch offices of the insurance companies from FBiH, insurance agents and brokers, and the Protection Fund of the Republic of Srpska and certified actuaries.

##### 2.1.1.1. Insurance companies

A total of 14 insurance companies with HQ in the Republic of Srpska operated in the insurance market of the Republic of Srpska in 2017, and they are presented in the table below, by insurance activity, HQ and ownership structure as at 31 December 2017.

*Table 1: Insurance companies from RS*

No	Name of the insurance company	HQ	Majority ownership
<b>NON-LIFE INSURANCE</b>			
1.	Atos osiguranje A.D.	Bijeljina	domestic
2.	D.D. Brčko gas osiguranje	Brčko	domestic
3.	Drina osiguranje A.D.	Milići	domestic
4.	Euros osiguranje A.D.	Banja Luka	domestic
5.	Krajina osiguranje A.D.	Banja Luka	foreign
6.	Mikrofin osiguranje A.D.	Banja Luka	domestic
7.	Nešković osiguranje A.D.	Bijeljina	domestic
8.	Osiguranje Aura A.D.	Banja Luka	domestic
9.	Osiguranje Garant D.D.	Brčko	domestic
10.	SAS-SuperP OSIGURANJE A.D.	Bijeljina	domestic
11.	Triglav osiguranje A.D.	Banja Luka	foreign
<b>LIFE AND NON-LIFE INSURANCE (COMPOSITE COMPANIES)</b>			
12.	Grawe osiguranje A.D.	Banja Luka	foreign
13.	Dunav osiguranje A.D.	Banja Luka	foreign
14.	Wiener osiguranje A.D.	Banja Luka	foreign

*Source: Central Securities Registry*

Of the 14 insurance companies with HQ in the Republic of Srpska, 11 companies pursued the activity of non-life insurance, and 3 companies pursued the activity of non-life and life insurance.

In addition to that, a total of 11 branch offices of the insurance companies from FBiH operated in the insurance market of the Republic of Srpska in 2017, while 7 insurance companies from the Republic of Srpska operated in FBiH through their branch offices.

#### **Ownership structure**

By ownership structure, as at 31 December 2017, a total of 9 insurance companies had majority domestic ownership, while 5 insurance companies had majority foreign ownership.



**Table 2: Ownership structure in the insurance companies from RS**

Ownership	Number of insurance companies	Share in equity	Share in the total assets	Share in the gross invoiced premium
Majority domestic ownership	9	58.8 %	44.4 %	57.5 %
Majority foreign ownership	5	41.2 %	55.6 %	42.5 %
<b>TOTAL</b>	<b>14</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

Source: Reports of the insurance companies from RS and the Central Securities Registry

The share of the foreign capital in the equity of all insurance companies with HQ in the Republic of Srpska totalled 41.2%. A total of 55.6% of the total assets and 42.5% of the gross invoiced premium refers to the insurance companies with the majority foreign capital.

According to the report of the Central Securities Registry JSC Banja Luka – the shareholder register, the state-owned capital was recorded in Osiguranje Aura a.d. Banja Luka with the share of 38% (preference shares) and in Krajina osiguranje a.d. Banja Luka, with the share of 34.9%.

### **Human resources**

As at 31 December 2017, a total of 1,446 persons were employed in the insurance companies with HQ in the Republic of Srpska. The number and the qualification structure of the employees in the insurance companies with HQ in the Republic of Srpska, for the period 2015-2017, are shown in the table below.

**Table 3: Number and qualification structure of employees in the insurance companies from RS**

QUALIFICATION	As at 31 December 2015		As at 31 December 2016		As at 31 December 2017		INDEX 2017/16
	number	%	number	%	number	%	
unskilled	8	0.6	8	0.6	8	0.6	100.0
semi-skilled	1	0.1	2	0.1	2	0.1	100.0
primary education	0	0.0	0	0.0	0	0.0	
skilled	85	5.9	68	4.9	67	4.6	98.5
secondary education	752	52.6	709	50.9	726	50.2	102.4
highly-skilled	6	0.4	7	0.5	8	0.6	114.3
two-year college degree	90	6.3	82	5.9	84	5.8	102.4
university degree	461	32.2	489	35.1	522	36.1	106.7
MA	25	1.7	28	2.0	27	1.9	96.4
PhD	2	0.1	1	0.1	2	0.1	200.0
<b>TOTAL</b>	<b>1,430</b>	<b>100.0</b>	<b>1,394</b>	<b>100.0</b>	<b>1,446</b>	<b>100.0</b>	<b>103.7</b>

Source: Reports of the insurance companies from RS

In addition to that, as at 31 December 2017, a total of 243 persons were employed in the branch offices of the insurance companies from FBiH, and 7 persons were employed in the Protection Fund of the Republic of Srpska, which gives a total of 1,696 employees, including the employees in the insurance companies with HQ in the Republic of Srpska. Apart from that, insurance agents and brokers (natural persons) and certified actuaries work in the insurance market as well, which is shown later in this chapter.

### **2.1.1.2. Insurance agents and brokers<sup>1</sup>**

As at 31 December 2017, the Register of insurance agents and brokers kept by the Agency lists a total of:

- 203 insurance agents – natural persons, of which a total of 31 persons registered businesses as entrepreneurs,
- 13 insurance agency companies with HQ in the Republic of Srpska (including Pošte Srpske, a microcredit company and a bank) and 4 branch offices of the agency companies from FBiH,
- 103 insurance brokers – natural persons,
- 5 brokerage companies with HQ in the Republic of Srpska and 3 branch offices of the brokerage companies from FBiH.

An up-to-date Registers of insurance agents and brokers is available on the website of the Agency ([www.azors.rs.ba](http://www.azors.rs.ba)).

In 2017, the Agency organised education and held an exam for the professional knowledge verification, required for obtaining the authorisation to pursue the activity of insurance agency and brokerage. A total of 42 candidates passed the professional examination.

### **2.1.1.3. Protection Fund of the Republic of Srpska**

The Protection Fund of the Republic of Srpska (hereinafter referred to as: Protection Fund) was established pursuant to the Law on Compulsory Insurance for Motor Vehicles and other Types of Compulsory Liability Insurance – Consolidated text, as a separate legal person. The responsibility of the Protection Fund is prescribed by the Law on Compulsory Traffic Insurance (Official Gazette of the Republic of Srpska, 82/15). The Protection Fund is obligated to compensate damages occurred on the Republic of Srpska territory to the third parties damaged, if it was caused by an unknown vehicle or a vehicle whose owner did not conclude an automobile liability insurance contract. Apart from that, the Protection Fund is obligated to compensate persons damaged in the case when the contract on the compulsory insurance of the passengers in the public transportation from the consequences of the accident is not concluded, and for any damage arising from MTPL insurance and insurance of passengers in public transport which could not be compensated from the assets of the insurance company in liquidation.

All insurance companies which pursue the activities of MTPL insurance and accident insurance of passengers in public transport, except for passengers in air transport, are obliged to be members of the Protection Fund and to pay contribution to the Protection Fund, in proportion to the insurance premium derived from MTPL insurance and accident insurance of passengers in public transport in the Republic of Srpska.

The total income generated by the Protection Fund in 2017 was BAM 3,840,640, representing an increase of 12% in comparison with the previous year, of which 88% referred to operating income, while 12% referred to recovery of claims based on recourse and reduction of

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<sup>1</sup> Pursuant to the Law on Insurance Agency and Insurance and Reinsurance Brokerage (Official Gazette of the Republic of Srpska, 47/17), insurance brokerage is pursued by insurance brokers (natural persons and insurance brokerage companies).

provisions. The total expenses were BAM 3,207,282, which was a decrease of 6.4% in comparison with the previous year, of which 71% referred to operating expenses, while 29% referred to adjustment of receivables based on recourse. In 2017, the Protection Fund had excess of income over expenses in the amount of BAM 633,358.

The table below gives an overview of the settlement and payment of claims in the period 2015-2017, which refer to damage to persons or property incurred in traffic accidents, within the responsibility of the Protection Fund.

**Table 4: Claims towards the Protection Fund**

Claims	31 Dec 2015	31 Dec 2016	31 Dec 2017	Index 2017/2016
1. Reported claims in the current period and reactivated	506	512	435	85.0
2. Transferred from the previous period	136	166	176	106.0
3. Total number of claims (1+2)	642	678	611	90.1
4. Claims rejected	85	87	106	121.8
5. Claims processed, less the rejected ones	391	414	362	87.4
6. Number of claims paid	391	414	362	87.4
7. Amount of claims paid (BAM)	1,171,594	1,347,159	1,104,258	82.0

*Source: Report of the Protection Fund*

In comparison with the previous year, the total number of claims decreased by 9.9%. All processed claims were paid. The amount of claims paid was lower in 2017 by 18.0% in comparison with the previous year. The average value of a claim paid in 2017 was BAM 3,050, representing a decrease of 6.3% in comparison with 2016.

#### ***2.1.1.4. Certified actuaries***

In accordance with the international standards for pursuit of insurance, it is of utmost importance to provide an adequate number of qualified actuaries. As at 31 December 2017, a total of 36 persons were recorded in the Register of certified actuaries kept by the Agency. An up-to-date Register of certified actuaries is available on the website of the Agency ([www.azors.rs.ba](http://www.azors.rs.ba)).

#### **2.1.2. Insurance market development indicators**

The table below shows a comparative overview of the main relative indicators related to the premium, used for measuring the level of development of insurance markets.

Table 5: Premium and macroeconomic indicators

(in USD)<sup>2</sup>

Country		Premium/population			Premium/GDP (%)			Life insurance / total premium (%)		
		2014	2015	2016	2014	2015	2016	2014	2015	2016
BiH	RS	81.4	73.2	96.7	2.1	2.0	2.2	15.8	16.7	16.5
	FBiH	96.2	103.2	114.5	2.3	2.3	2.3	24.4	24.8	24.3
Austria		2,680.6	2,261.0	2,177.0	5.2	5.2	4.8	39.4	38.7	35.8
Bulgaria		163.7	149.0	160.0	2.1	2.2	2.2	17.0	17.8	18.4
Greece		478.0	382.0	398.0	2.2	2.2	2.2	45.2	45.9	45.8
Hungary		352.5	303.0	317.0	2.5	2.4	2.6	55.9	53.7	49.8
Romania		119.0	107.0	111.0	1.2	1.3	1.2	19.3	20.1	19.1
Slovenia		1,245.9	1,058.0	1,084.0	5.0	5.0	5.0	27.6	28.7	28.4
Serbia		111.1	105.0	115.0	1.9	2.0	2.1	21.5	22.4	24.7
Turkey		152.7	141.0	165.0	1.5	1.6	1.6	12.8	12.2	12.5
Croatia		351.5	299.0	307.0	2.6	2.6	2.6	30.9	33.9	33.3
Czech Republic		721.4	592.0	592.0	3.5	3.2	3.1	45.1	40.7	37.7

Source: BiH insurance market statistics, Statistics Institute of the Republic of Srpska, SwissRe

The share of the premium in the GDP was approximately at the same level as in other countries in the region with a similar level of insurance market development. Although there has been a trend of growth of the life insurance premium in the market of the Republic of Srpska, the share of the life insurance premium in the total premium is still low. The premium per capita was lower in comparison with both the developed and the developing insurance markets.

### 2.1.3. Premium written in the insurance market of the Republic of Srpska

The table below gives an overview of the total premium written in the insurance market of the Republic of Srpska<sup>3</sup>, in the period from 2015 to 2017.

Table 6: Insurance premium written in the market of the Republic of Srpska

(in BAM)

No	Entities in the market of RS	Premium written in the market of the Republic of Srpska						Index 2017/2016
		Jan-Dec 2015		Jan-Dec 2016		Jan-Dec 2017		
		Amount	%	Amount	%	Amount	%	
<b>1.</b>	<b>INSURANCE COMPANIES FROM RS</b>	142,533,340	78.0	155,728,378	78.6	169,595,254	79.5	108.9
1.1.	Non-life insurance	124,977,306	68.4	137,049,768	69.2	149,588,494	70.1	109.1
1.2.	Life insurance	17,556,034	9.6	18,678,610	9.4	20,006,759	9.4	107.1
<b>2.</b>	<b>BRANCH OFFICES OF THE COMPANIES FROM FBiH</b>	40,221,388	22.0	42,419,590	21.4	43,694,839	20.5	103.0
2.1.	Non-life insurance	27,231,416	14.9	28,419,093	14.3	28,842,603	13.5	101.5
2.2.	Life insurance	12,989,971	7.1	14,000,498	7.1	14,852,236	7.0	106.1
<b>TOTAL</b>		<b>182,754,728</b>	<b>100.0</b>	<b>198,147,968</b>	<b>100.0</b>	<b>213,290,093</b>	<b>100.0</b>	<b>107.6</b>

Source: Reports of the insurance companies from RS and the branch offices of the companies from FBiH

<sup>2</sup> At the time of creation of this report, the comparative statistics for 2017 were not available

<sup>3</sup> The total premium written in the insurance market of the Republic of Srpska was calculated in such a manner that the total premium generated by the insurance companies with HQ in the Republic of Srpska was decreased by the premium generated by those companies in FBiH, and increased by the premium which the branch offices of the insurance companies with HQ in FBiH generated in the Republic of Srpska.

The total premium written in the insurance market of the Republic of Srpska in the period from 1 January to 31 December 2017 was BAM 213,290,093, which is higher by BAM 15,142,125 or 7.6% in comparison with the same period of the previous year. On average, the non-life insurance premium increased by 7.8%, and the life insurance premium increased by 6.7%.

#### 2.1.4. Market structure and concentration

The table below shows the share of the insurance companies with HQ in the Republic of Srpska and the branch offices of the insurance companies from FBiH in the total premium written in the market of the Republic of Srpska, in the period from 2015 to 2017.

*Table 7: Share of the insurance companies from RS and the branch offices of the companies from FBiH in the market of the Republic of Srpska*

No	Share of the insurance companies from RS and the branch offices of the companies from FBiH in the total premium written in the market of the Republic of Srpska			
	Insurance company from RS / Branch offices of the companies from FBiH	2015	2016	2017
1.	Atos osiguranje A.D.	5.0 %	6.3 %	7.6 %
2.	D.D. Brčko gas osiguranje	5.8 %	5.1 %	5.1 %
3.	Grawe osiguranje A.D.	8.4 %	8.1 %	7.8 %
4.	Drina osiguranje A.D.	10.4 %	9.9 %	9.7 %
5.	Dunav osiguranje A.D.	9.1 %	8.9 %	8.4 %
6.	Euros osiguranje A.D.		2.9 %	3.7 %
7.	Wiener osiguranje A.D.	9.5 %	10.0 %	9.6 %
8.	Krajina osiguranje A.D.	5.5 %	2.1 %	1.4 %
9.	Mikrofin osiguranje A.D.	3.4 %	3.3 %	3.2 %
10.	Nešković osiguranje A.D.	8.5 %	8.2 %	8.0 %
11.	Osiguranje Aura A.D.	4.1 %	4.4 %	4.7 %
12.	Osiguranje Garant A.D.	3.2 %	3.8 %	3.9 %
13.	SAS-SuperP osiguranje A.D.		0.5 %	1.4 %
14.	Triglav osiguranje A.D.	5.4 %	5.0 %	4.9 %
15.	Asa osiguranje d.d.	1.3 %	1.7 %	1.9 %
16.	Bosna-Sunce osiguranje d.d.	1.1 %	1.0 %	0.6 %
17.	Camelija osiguranje d.d.	0.3 %	0.4 %	0.3 %
18.	Croatia osiguranje d.d.	0.7 %	1.0 %	0.8 %
19.	Euroherc osiguranje d.d.	4.0 %	3.0 %	3.0 %
20.	SARAJEVO osiguranje	1.8 %	2.1 %	2.2 %
21.	Merkur BH osiguranje	4.2 %	3.7 %	3.6 %
22.	Osiguranje VGT d.d.	0.4 %	0.4 %	0.3 %
23.	UNIQA osiguranje d.d.	5.4 %	5.6 %	5.1 %
24.	Zovko osiguranje d.d.	2.7 %	2.3 %	2.3 %
25.	Triglav osiguranje d.d.	0.1 %	0.3 %	0.4 %
	<b>TOTAL</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

*Source: Reports of the insurance companies from RS and the branch offices of the companies from FBiH*

The overview below presents the level of concentration of the insurance market in the Republic of Srpska by peer group, which shows that there were no changes in comparison with the same period of the previous year.

**Table 8: Share of the insurance companies from RS and the branch offices of the companies from FBiH in the total premium written in the market of the Republic of Srpska, by peer group**

Share	Share of the insurance companies from RS and the branch offices of the companies from FBiH in the total premium in the market of the Republic of Srpska, by peer group					
	2015		2016		2017	
	Total share	Number of insurance companies	Total share	Number of insurance companies	Total share	Number of insurance companies
up to 5 %	32.2 %	14	37.8 %	17	38.6 %	17
5-10 %	57.5 %	8	62.2 %	8	61.4 %	8
10-15 %	10.4 %	1	0.0 %	0	0.0 %	0
over 15 %	0.0 %	0	0.0 %	0	0.0 %	0

*Source: Reports of the insurance companies from RS and the branch offices of the companies from FBiH*

The Herfindahl-Hirschman Index also represents a measure of market concentration, and it is calculated by summing the squares of the individual share of each insurance company in relation to the generated premium. This index takes into account the relative size and distribution of the companies in the market. The closer is a market to a monopoly, the higher the concentration of the market (and the lower its competition). The index increases if the number of companies in the market decreases, and, at the same time, the difference in their size becomes higher and higher. If there were only one insurance company, the index would be 10,000 (the market share 100%, i.e. the index is  $100 \times 100 = 10,000$ ). On the other hand, if there were many companies with proportionally low share, around 0%, the index would be nearly 0, indicating perfect competition in the market. If the Herfindahl-Hirschman Index is between 1,000 and 1,800, it is considered that there is moderate concentration in the market. Taking into account that the Herfindahl-Hirschman Index in 2017 was 620 points, it may be concluded that there was fairly strong competition in the insurance market of the Republic of Srpska.

In that regard, it should be noted that there has been a downward trend in the value of the Herfindahl-Hirschman Index, which indicates a continuous increase in this market's competition.

### 2.1.5. Premium written per insurance company

The total premium written in the period from 1 January to 31 December 2017 generated by the insurance companies with HQ in the Republic of Srpska, including the premium generated by these insurance companies in the insurance market of FBiH, was BAM 207,887,978 (of which BAM 38,292,724 in FBiH, and BAM 169,595,254 in the Republic of Srpska). In comparison with the same period of the previous year, the premium written by the insurance companies with HQ in the Republic of Srpska was higher by BAM 20,494,493 or 10.9%.

The table below shows an overview of the premium written by insurance company with HQ in the Republic of Srpska, in the period 2015-2017.

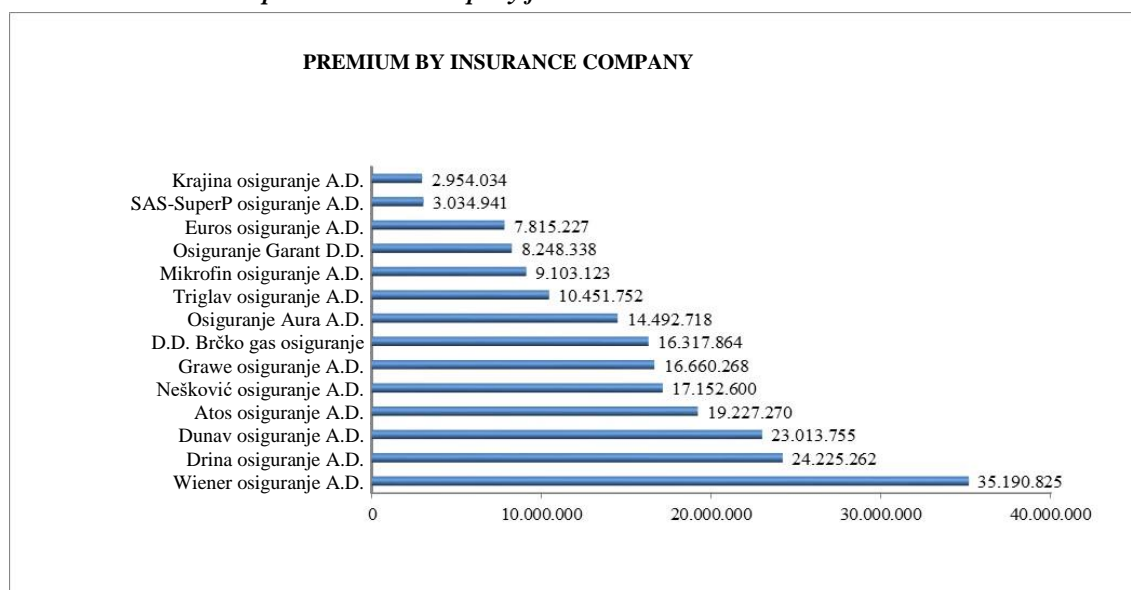
Table 9: Premium written by insurance company from RS

(in BAM)

No	NAME OF THE COMPANY IN RS	Premium written						Index
		2015		2016		2017		2017/2016
		Amount	%	Amount	%	Amount	%	
<b>NON-LIFE INSURANCE</b>								
1.	Atos osiguranje A.D.	9,501,718	5.5	13,396,154	7.1	19,227,270	9.2	143.5
2.	D.D. Brčko gas osiguranje	15,162,815	8.9	15,265,874	8.1	16,317,864	7.8	106.9
3.	Grawe osiguranje A.D.	23,932	0.0	16,954	0.0	14,894	0.0	87.9
4.	Drina osiguranje A.D.	23,296,826	13.6	24,413,426	13.0	24,225,262	11.7	99.2
5.	Dunav osiguranje A.D.	18,013,284	10.5	20,696,765	11.0	22,301,711	10.7	107.8
6.	Euros osiguranje A.D.		0.0	5,805,365	3.1	7,815,227	3.8	134.6
7.	Wiener osiguranje A.D.	29,337,981	17.1	27,301,980	14.6	29,345,957	14.1	107.5
8.	Krajina osiguranje A.D.	9,970,714	5.8	4,159,511	2.2	2,954,034	1.4	71.0
9.	Mikrofin osiguranje A.D.	7,727,164	4.5	8,665,103	4.6	9,103,123	4.4	105.1
10.	Nešković osiguranje A.D.	15,445,117	9.0	16,262,333	8.7	17,152,600	8.3	105.5
11.	Osiguranje Aura A.D.	8,959,663	5.2	12,134,006	6.5	14,492,718	7.0	119.4
12.	Osiguranje Garant D.D.	5,759,151	3.4	7,490,302	4.0	8,248,338	4.0	110.1
13.	SAS-SuperP osiguranje A.D.		0.0	1,086,548	0.6	3,034,941	1.5	279.3
14.	Triglav osiguranje A.D.	9,829,668	5.7	9,833,350	5.2	10,451,752	5.0	106.3
	<b>TOTAL NON-LIFE INSURANCE</b>	<b>153,028,033</b>	<b>89.3</b>	<b>166,527,671</b>	<b>88.9</b>	<b>184,685,692</b>	<b>88.8</b>	<b>110.9</b>
<b>LIFE INSURANCE</b>								
1.	Grawe osiguranje A.D.	15,238,494	8.9	15,970,100	8.5	16,645,373	8.0	104.2
2.	Dunav osiguranje A.D.	736,624	0.4	714,749	0.4	712,044	0.3	99.6
3.	Wiener osiguranje A.D.	2,320,358	1.4	4,180,965	2.2	5,844,867	2.8	139.8
	<b>TOTAL LIFE INSURANCE</b>	<b>18,295,476</b>	<b>10.7</b>	<b>20,865,814</b>	<b>11.1</b>	<b>23,202,285</b>	<b>11.2</b>	<b>111.2</b>
	<b>TOTAL PREMIUM</b>	<b>171,323,509</b>	<b>100.0</b>	<b>187,393,485</b>	<b>100.0</b>	<b>207,887,978</b>	<b>100.0</b>	<b>110.9</b>

Source: Reports of the insurance companies from RS

Chart 1: Premium written per insurance company from RS



Source: Reports of the insurance companies from RS



In 2017, in comparison with the previous year, three insurance companies with HQ in the Republic of Srpska generated a lower non-life insurance premium, while one insurance company generated a lower life insurance premium, whereby the decrease in the premium was significant with only one non-life insurance company.

The branch offices of the insurance companies from FBiH also have a share in the premium generated in the insurance market of the Republic of Srpska, in the amount of BAM 43,694,839, which represents 20.5% of the total premium.

The table below shows an overview of the premium written in the insurance market in the Republic of Srpska, by branch office of the companies from FBiH, in the period 2015-2017.

**Table 10: Premium written by branch office of the insurance companies from FBiH**

(in BAM)

No	Branch offices of the insurance companies from FBiH operating in RS	Premium written						Index 2017/2016
		2015		2016		2017		
		Amount	%	Amount	%	Amount	%	
<b>NON-LIFE INSURANCE</b>								
1.	Asa osiguranje d.d.	2,385,776	5.9	3,329,131	7.8	4,093,834	9.4	123.0
2.	Bosna-Sunce osiguranje d.d.	1,876,177	4.7	1,925,659	4.5	1,223,561	2.8	63.5
3.	Camelija osiguranje d.d.	612,088	1.5	701,618	1.7	684,028	1.6	97.5
4.	Croatia osiguranje d.d.	1,159,739	2.9	1,814,208	4.3	1,680,306	3.8	92.6
5.	Euroherc osiguranje d.d.	7,247,652	18.0	5,857,642	13.8	6,434,968	14.7	109.9
6.	SARAJEVO osiguranje	3,309,403	8.2	4,182,596	9.9	4,627,264	10.6	110.6
7.	Merkur BH osiguranje	217,909	0.5	261,350	0.6	272,983	0.6	104.5
8.	Osiguranje VGT d.d.	648,646	1.6	818,691	1.9	562,607	1.3	68.7
9.	UNIQA osiguranje d.d.	4,758,278	11.8	5,037,833	11.9	4,426,584	10.1	87.9
10.	Zovko osiguranje d.d.	5,015,747	12.5	4,490,365	10.6	4,836,468	11.1	107.7
	<b>TOTAL NON-LIFE INSURANCE</b>	<b>27,231,416</b>	<b>67.7</b>	<b>28,419,093</b>	<b>67.0</b>	<b>28,842,603</b>	<b>66.0</b>	<b>101.5</b>
<b>LIFE INSURANCE</b>								
1.	Bosna-Sunce osiguranje d.d.	80,029	0.2	122,154	0.3	138,442	0.3	113.3
2.	Croatia osiguranje d.d.	85,885	0.2	137,721	0.3	125,904	0.3	91.4
3.	Merkur BH osiguranje d.d.	7,483,182	18.6	7,049,493	16.6	7,426,388	17.0	105.3
4.	UNIQA osiguranje d.d.	5,138,811	12.8	6,129,961	14.5	6,345,062	14.5	103.5
5.	Triglav osiguranje d.d.	202,064	0.5	561,168	1.3	816,439	1.9	145.5
	<b>TOTAL LIFE INSURANCE</b>	<b>12,989,971</b>	<b>32.3</b>	<b>14,000,497</b>	<b>33.0</b>	<b>14,852,236</b>	<b>34.0</b>	<b>106.1</b>
	<b>TOTAL PREMIUM</b>	<b>40,221,388</b>	<b>100.0</b>	<b>42,419,590</b>	<b>100.0</b>	<b>43,694,839</b>	<b>100.0</b>	<b>103.0</b>

Source: Reports of the branch offices of the companies from FBiH

### 2.1.6. Portfolio structure

The table below shows the structure of the premium written by the insurance companies with HQ in the Republic of Srpska, by type of insurance, in the period 2015-2017, whereby the *Other* category refers to 13 groups of non-life insurance, whose individual share in the total premium is below one per cent.

**Table 11: Total premium written by the insurance companies from RS, by type of insurance**

(in BAM)

Type of insurance	2015	2016	2017	Index
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Report on the state of play of the insurance sector in the Republic of Srpska  
for the period from 1 January 2017 to 31 December 2017

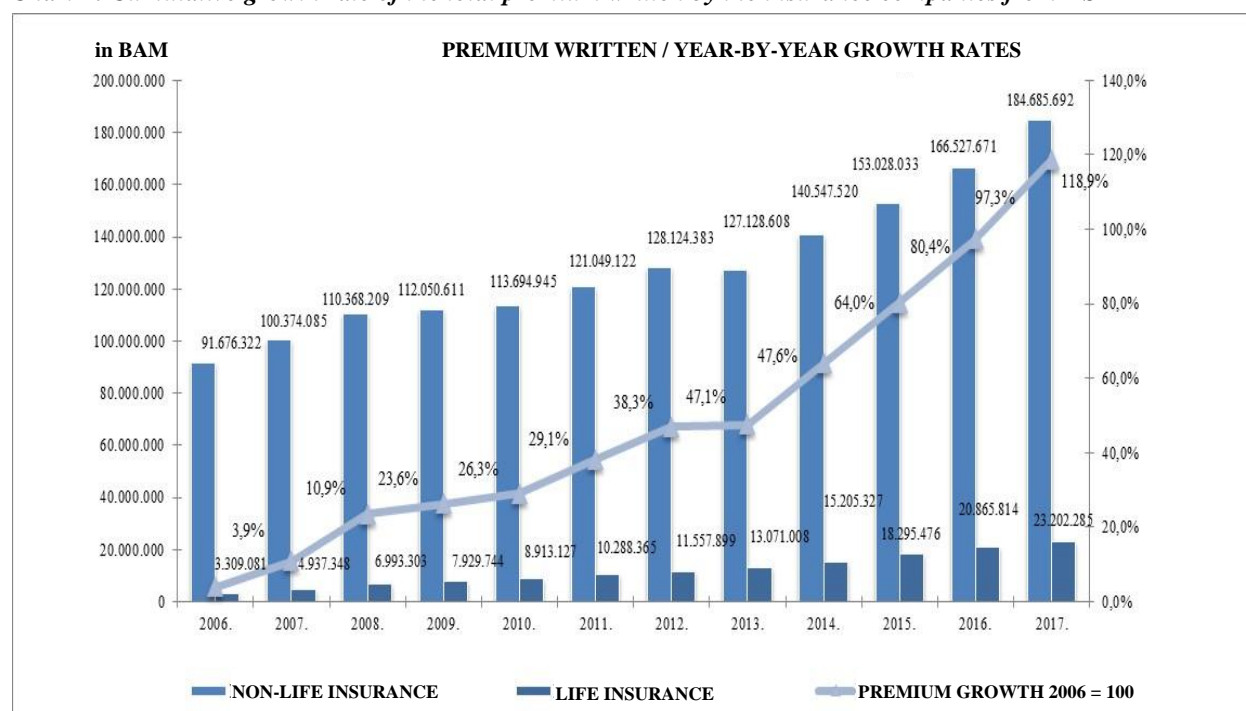
	Amount	%	Amount	%	Amount	%	2017/16
Accident insurance	11,199,875	6.5	11,797,295	6.3	14,077,115	6.8	119.3
Land vehicle insurance (except for railway vehicles)	9,821,394	5.7	10,077,750	5.4	11,406,878	5.5	113.2
Insurance of property against fire and natural forces	6,507,093	3.8	6,320,524	3.4	8,075,645	3.9	127.8
Insurance against other types of property damage	12,776,740	7.5	11,601,584	6.2	10,880,502	5.2	93.8
Motor vehicle liability insurance	109,042,261	63.6	122,546,888	65.4	134,794,492	64.8	110.0
Other	3,680,671	2.1	4,183,629	2.2	5,451,061	2.6	130.3
<b>Total non-life insurance</b>	<b>153,028,033</b>	<b>89.3</b>	<b>166,527,671</b>	<b>88.9</b>	<b>184,685,692</b>	<b>88.8</b>	<b>110.9</b>
<b>Life insurance</b>	<b>18,295,476</b>	<b>10.7</b>	<b>20,865,814</b>	<b>11.1</b>	<b>23,202,285</b>	<b>11.2</b>	<b>111.2</b>
<b>Total</b>	<b>171,323,509</b>	<b>100.0</b>	<b>187,393,485</b>	<b>100.0</b>	<b>207,887,978</b>	<b>100.0</b>	<b>110.9</b>

*Source: Reports of the insurance companies from RS*

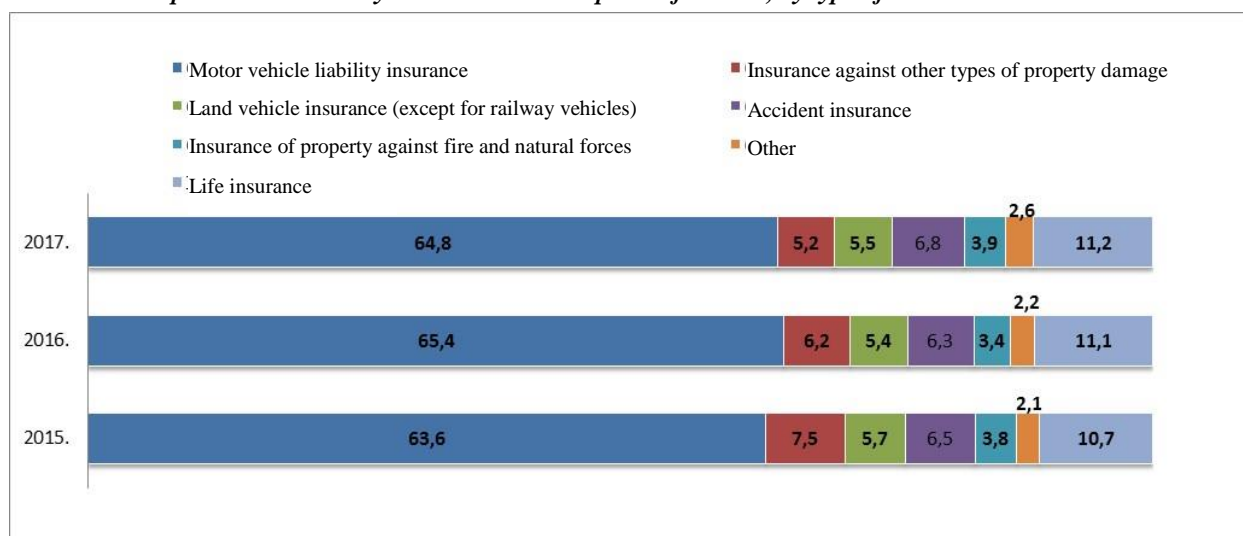
Of the total premium written in 2017, a total of BAM 184,685,692 or 88.8% referred to the non-life insurance premium, while the life insurance premium written totalled BAM 23,202,285 or 11.2%. In comparison with the previous year, the non-life insurance premium written increased by 10.9%, while the life insurance premium increased by 11.2%. The premium of compulsory MTPL insurance has the most significant share in the total premium of motor vehicle liability insurance with 99.6%. The share of the premium of compulsory MTPL insurance in the total insurance premium written by the insurance companies with HQ in the Republic of Srpska was 64.6%, while its share in the total non-life insurance premium written was 72.7%.

A series of charts illustrating the premiums written by the insurance companies with HQ in the Republic of Srpska are given below.

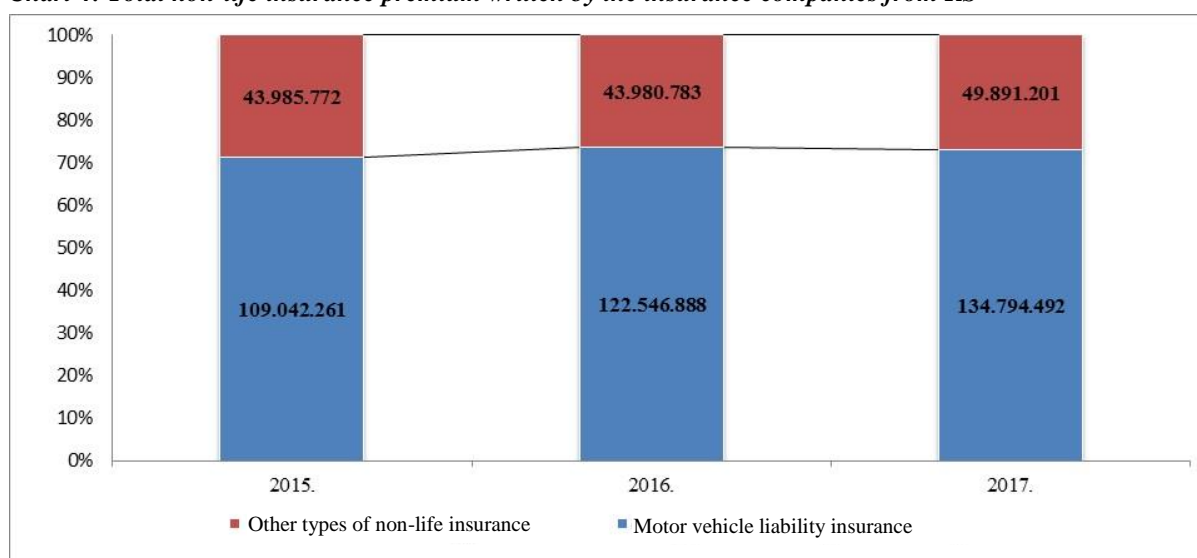
**Chart 2: Cumulative growth rate of the total premium written by the insurance companies from RS**



*Source: Reports of the insurance companies from RS*

**Chart 3: Total premium written by the insurance companies from RS, by type of insurance**

Source: Reports of the insurance companies from RS

**Chart 4: Total non-life insurance premium written by the insurance companies from RS**

Source: Reports of the insurance companies from RS

## 2.1.7. Premium written through insurance agents and brokers

### 2.1.7.1. Premium written through insurance agents and brokers in the insurance market in the Republic of Srpska

The table below gives an overview of the premium written through insurance agents and brokers in the market of the Republic of Srpska.

**Table 12: Premium written through insurance agents and brokers in the market of the Republic of Srpska**  
(in BAM)

No	Entities in the market of RS	2017			
		Premium written through insurance agents		Premium written through insurance brokers	
		Amount	Share in the total premium written	Amount	Share in the total premium written
1.	INSURANCE COMPANIES FROM RS	29,236,084	17.2 %	7,333,731	4.3 %
1.1.	Non-life insurance	13,029,980	8.7 %	7,303,711	4.9 %
1.2.	Life insurance	16,206,104	81.0 %	30,020	0.2 %
2.	BRANCH OFFICES OF THE COMPANIES FROM FBiH	16,057,053	36.7 %	1,247,019	2.9 %
2.1.	Non-life insurance	4,594,718	15.9 %	1,238,419	4.3 %
2.2.	Life insurance	11,462,335	77.2 %	8,600	0.1 %
<b>TOTAL</b>		<b>45,293,137</b>	<b>21.2 %</b>	<b>8,580,750</b>	<b>4.0 %</b>

Source: Reports of the insurance companies from RS and the branch offices of the companies from FBiH

In 2017, the premium in the insurance market of the Republic of Srpska written through insurance agents and brokers totalled BAM 53,873,887 or 25.2% of the total premium written.

The non-life insurance premium written through insurance agents and brokers totalled BAM 26,166,828 or 14.7% of the total non-life insurance premium written. The life insurance premium totalled BAM 27,707,059 or 79.5% of the total life insurance premium written.

The table below gives an overview of the premium written through insurance agents and brokers in the market of the Republic of Srpska, by type of insurance.

**Table 13: Premium written through insurance agents and brokers in the market of the Republic of Srpska, by type of insurance**

(in BAM)

Types of insurance	2017			
	Premium written through insurance agents		Premium written through insurance brokers	
	Amount	Share in the total premium written	Amount	Share in the total premium written
Accident insurance	4,369,390	28.6 %	3,696,585	24.2 %
Land vehicle insurance (except for railway vehicles)	1,241,686	8.9 %	722,566	5.2 %
Insurance of property against fire and natural forces	673,327	7.6 %	1,692,461	19.2 %
Insurance against other types of property damage	297,570	3.4 %	1,140,483	12.8 %
Motor vehicle liability insurance	10,212,397	8.1 %	808,128	0.6 %
Other	830,328	16.8 %	481,907	9.7 %
Total non-life insurance	17,624,698	9.9 %	8,542,130	4.8 %
Total life insurance	27,668,439	79.4 %	38,620	0.1 %
<b>TOTAL</b>	<b>45,293,137</b>	<b>21.2 %</b>	<b>8,580,750</b>	<b>4.0 %</b>

Source: Reports of the insurance companies from RS and the branch offices of the companies from FBiH

The share of the premium of motor vehicle liability insurance written through insurance agents and brokers was 8.7% of the total premium written in this type of insurance.

### 2.1.7.2. Premium of the insurance companies with HQ in the Republic of Srpska written through insurance agents and brokers

The premium written by the insurance companies with HQ in the Republic of Srpska through insurance agents and brokers in the period from 1 January to 31 December 2017 totalled BAM 48,392,826 or 23.2% of the total premium written. In comparison with the same period of the previous year, the premium written through these sales channels was higher by BAM 4,337,245 or 9.8%.

The table below shows the premium of the insurance companies with HQ in the Republic of Srpska written through insurance agents and brokers, by type of insurance in the period 2016-2017.

**Table 14: Premium of the insurance companies written through insurance agents and brokers, by type of insurance**

(in BAM)

Type of insurance	2016				2017			
	Premium written through insurance agents		Premium written through insurance brokers		Premium written through insurance agents		Premium written through insurance brokers	
	Amount	Share in the total premium written	Amount	Share in the total premium written	Amount	Share in the total premium written	Amount	Share in the total premium written
Accident insurance	2,792,579	23.7 %	2,572,987	21.8 %	3,890,693	27.6 %	3,502,248	24.9 %
Land vehicle insurance (except for railway vehicles)	882,176	8.8 %	650,346	6.5 %	1,060,065	9.3 %	640,055	5.6 %
Insurance of property against fire and natural forces	474,116	7.5 %	1,047,401	16.6 %	626,666	7.8 %	1,750,553	21.7 %
Insurance against other types of property damage	325,977	2.8 %	1,422,654	12.3 %	266,897	2.5 %	1,390,812	12.8 %
Motor vehicle liability insurance	10,789,718	8.8 %	4,067,542	3.3 %	14,833,749	11.0 %	922,570	0.7 %
Other	991,967	23.7 %	285,999	6.8 %	1,017,682	18.7 %	799,376	14.7 %
<b>Total non-life insurance</b>	<b>16,256,532</b>	<b>9.8 %</b>	<b>10,046,928</b>	<b>6.0 %</b>	<b>21,695,751</b>	<b>11.7 %</b>	<b>9,005,613</b>	<b>4.9 %</b>
<b>Total life insurance</b>	<b>17,728,549</b>	<b>85.0 %</b>	<b>23,572</b>	<b>0.1 %</b>	<b>17,661,442</b>	<b>76.1 %</b>	<b>30,020</b>	<b>0.1 %</b>
<b>TOTAL</b>	<b>33,985,081</b>	<b>18.1 %</b>	<b>10,070,500</b>	<b>5.4 %</b>	<b>39,357,193</b>	<b>18.9 %</b>	<b>9,035,633</b>	<b>4.3 %</b>

Source: Reports of the insurance companies from RS

The non-life insurance premium written through insurance agents and brokers totalled BAM 30,701,364 or 16.6% of the total non-life insurance premium written, while the life insurance premium totalled BAM 17,691,462 or 76.2% of the total life insurance premium written.

In 2017, the premium written by the insurance companies with HQ in the Republic of Srpska through insurance agents totalled BAM 39,357,193, and its share in the total premium written was 18.9%. The premium written through insurance brokers totalled BAM 9,035,633, and its share in the total premium written was 4.3%.

The share of the premium of motor vehicle liability insurance written through insurance agents and brokers in the total motor vehicle liability insurance premium written was 11.7%.

The next part of this report, which refers to insurance, will only use the data and the indicators of the insurance companies with HQ in the Republic of Srpska arising from the operation of these insurance companies both in the Republic of Srpska and in FBiH.

## 2.2. Balance structure

On the basis of the audited financial statements submitted by the insurance companies for 2017, this chapter gives a comparative overview and an analysis of the main balance items for 2016 and 2017.

### 2.2.1. Balance sheet

The table below shows a shortened overview of assets of the collective balance sheet for all insurance companies with HQ in the Republic of Srpska for 2016 and 2017.

**Table 15: Assets – total for all insurance companies from RS**

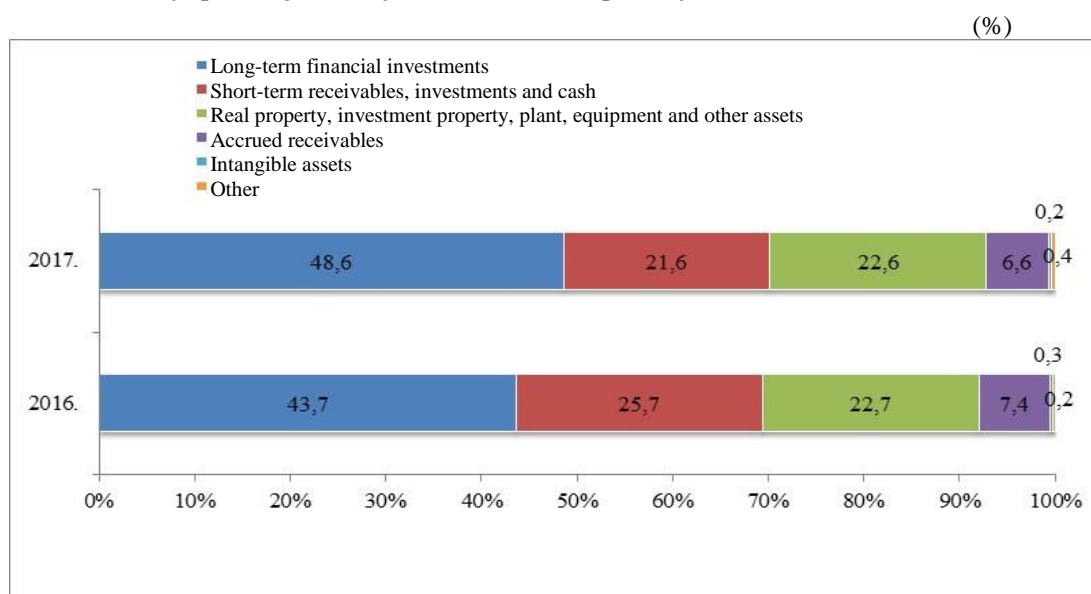
(in BAM)

ASSETS	31 December 2016		31 December 2017		Index 2017/16
	Amount	Share	Amount	Share	
A. FIXED ASSETS (I+II+III+IV)	264,412,965	66.7 %	309,274,397	71.5 %	117.0
I Intangible assets	1,368,854	0.3 %	967,841	0.2 %	70.7
II Real property, investment property, plant, equipment and other assets (1+2+3)	89,908,041	22.7 %	97,914,408	22.6 %	108.9
1. Land, buildings, plant and equipment	32,092,302	8.1 %	35,838,957	8.3 %	111.7
2. Investment property	54,687,542	13.8 %	57,366,423	13.3 %	104.9
3. Assets in preparation process and other assets	3,128,197	0.8 %	4,709,028	1.1 %	150.5
III Long-term financial investments (1+2)	173,081,421	43.7 %	210,392,149	48.6 %	121.6
1. Share in the capital of related, associated and other legal persons	2,199,255	0.6 %	3,311,688	0.8 %	150.6
2. Long-term financial investments to parent, related and other associated legal persons, domestic and foreign long-term financial investments, financial assets held to maturity, financial assets available for sale, and other long-term financial investments	170,882,166	43.1 %	207,080,461	47.9 %	121.2
IV Deferred tax funds	54,649	0.0 %		0.0 %	-
B. CURRENT ASSETS (I+II+III+IV)	131,946,582	33.3 %	123,455,628	28.5 %	93.6
I Inventories, fixed assets and assets of discontinued operations available for sale	517,298	0.1 %	1,315,559	0.3 %	254.3
II Short-term receivables, investments and cash	101,942,059	25.7 %	93,435,946	21.6 %	91.7
1. Receivables from premiums, participation in compensation and other customers	10,893,940	2.7 %	12,272,465	2.8 %	112.7
2. Receivables from specific business operations and other receivables	7,774,440	2.0 %	7,153,478	1.7 %	92.0
3. Short-term financial investments	56,916,134	14.4 %	52,804,976	12.2 %	92.8
4. Cash	26,357,545	6.6 %	21,205,027	4.9 %	80.5
Accrued receivables	29,301,278	7.4 %	28,663,323	6.6 %	97.8
IV - Deferred tax funds	185,947	0.0 %	40,801	0.0 %	21.9
<b>OPERATING ASSETS (A+B)</b>	<b>396,359,547</b>	<b>100.0 %</b>	<b>432,730,026</b>	<b>100.0 %</b>	<b>109.2</b>
<b>OFF-BALANCE-SHEET ASSETS</b>	<b>5,784,262</b>		<b>4,464,480</b>		<b>77.2</b>
<b>TOTAL ASSETS</b>	<b>402,143,809</b>		<b>437,194,506</b>		<b>108.7</b>

*Source: Balance sheets of the insurance companies from RS*

The amount of operating assets and liabilities of the insurance companies with HQ in the Republic of Srpska, as at 31 December 2017, was BAM 432,730,026, which was higher by 9.2% in comparison with the balance as at 31 December 2016.

The chart below shows the structure of operating assets for 2016 and 2017.

**Chart 5: Structure of operating assets of the insurance companies from RS**

Source: Balance sheets of the insurance companies from RS

In the structure of operating assets, as at 31 December 2017, the share of fixed assets was 71.5%, and the share of current assets was 28.5%, whereby, in comparison with the previous year, the share of fixed assets increased from 66.7% to 71.5%, while the share of current assets decreased from 33.3% to 28.5%.

The amount of fixed assets increased by 17.0%, and within this item, the amount of real property, investment property, plant, equipment and other assets increased by 8.9%, and the amount of long-term financial investments increased by 216 %.

As for real property, investment property, plant, equipment and other assets, there was an increase in all items. In terms of percentage, the highest increase was recorded in the item of assets in preparation process and other assets – 50.5%. However, this increase is not substantially significant, because the share of this item in operating assets was 1.1%.

Within long-term financial investments, the share in the capital of related, associated and other legal persons increased by 50.6%, and it mainly refers to investment of one insurance company in a related legal person (microcredit company). The other changes in long-term financial investments are in accordance with the changes in the structure of the investment of funds for coverage of technical reserves and 50% of the minimum guarantee fund, within which there was an increase in the investments in financial assets available for sale (bonds).

On the other hand, within fixed assets, there was a decrease of 29.3% in intangible assets, but the amount in this item was not substantially significant, because its share in operating assets was only 0.2%.

The amount of current assets decreased by 6.4%, and within this item, there was a decrease of 8.3% in short-term receivables, investments and cash, 2.2% in accrued receivables, and 78.1% in deferred tax funds.

As for short-term receivables, investments and cash, there was a decrease in receivables from specific business operations and other receivables, which was a result of recovery of claims on the basis of court judgments referring to one insurance company. Apart from that, there

was a decrease in the item of short-term financial investments, which was mainly affected by the conversion of short-term financial investments into long-term financial investments. The investment of funds provided by issuance of shares, which were not invested in the previous period by one company due to problems in the management process, affected the decrease of the amount in the item of cash. On the other hand, there was an increase in receivables from premiums, participation in compensation and other customers, which was mainly affected by the increase in receivables from the non-life insurance premium. The changes in the items of accrued receivables with the insurance companies resulted in a decrease of 2.2% in the total amount.

As for current assets, there was an increase in the item of inventories, fixed assets and assets of discontinued operations available for sale, but its share in operating assets was only 0.3%.

The amount of off-balance-sheet assets and liabilities decreased by 22.8% due to the decrease in contingent liabilities from guarantees endorsed to ensure that the liabilities of third persons would be met with three insurance companies. A part of this item referred to state-owned property (the buildings used by the insurance company Wiener osiguranje a.d.) and to receivables written off by one insurance company.

The table below gives a comparative overview of the aggregate items of liabilities in the balance sheet of all insurance companies with HQ in the Republic of Srpska, for 2016 and 2017.

**Table 16: Liabilities – total for all insurance companies from RS**

(in BAM)

LIABILITIES	31 December 2016		31 December 2017		Index 2017/16
	Amount	Share	Amount	Share	
A. CAPITAL	127,789,270	32.2 %	138,405,569	32.0 %	108.3
1. Share capital	105,741,092	26.7 %	102,706,392	23.7 %	97.1
2. Share issuance premium	3,185,700	0.8 %	252,000	0.1 %	7.9
3. Share issuance loss	4,073,025	1.0 %	4,045,946	0.9 %	99.3
4. Reserves from profit	5,961,666	1.5 %	6,141,813	1.4 %	103.0
5. Revaluation reserves	3,552,805	0.9 %	3,471,048	0.8 %	97.7
6. Unrealised gains on financial assets available for sale	3,237,694	0.8 %	5,112,822	1.2 %	157.9
7. Unrealised losses on financial assets available for sale	1,604,785	0.4 %	1,565,489	0.4 %	97.6
8. Undistributed profit (9+10)	28,660,159	7.2 %	38,123,089	8.8 %	133.0
9. Undistributed profit from previous years	5,850,973	1.5 %	8,250,669	1.9 %	141.0
10. Undistributed profit from the current year	22,809,186	5.8 %	29,872,420	6.9 %	131.0
11. Loss up to the amount of capital (12+13)	16,872,036	4.3 %	11,790,160	2.7 %	69.9
12. Loss from previous years	4,538,829	1.1 %	9,070,089	2.1 %	199.8
13. Loss from the current year	12,333,207	3.1 %	2,720,071	0.6 %	22.1
B. LONG-TERM PROVISIONS	78,578,911	19.8 %	89,654,026	20.7 %	114.1
C. OBLIGATIONS (1+2)	189,991,366	47.9 %	204,670,430	47.3 %	107.7
1. Long-term obligations	48,133	0.0 %	35,440	0.0 %	73.6
2. Short-term obligations and accrued costs and deferred income	189,943,233	47.9 %	204,634,990	47.3 %	107.7
2.1. Unearned premium – life insurance	4,972,987	1.3 %	5,334,993	1.2 %	107.3
2.2. Unearned premium – non-life insurance	91,828,622	23.2 %	102,629,970	23.7 %	111.8
2.3. Outstanding claims reserves – life insurance	584,495	0.1 %	798,229	0.2 %	136.6
2.4. Outstanding claims reserves – non-life insurance	64,683,352	16.3 %	66,242,517	15.3 %	102.4

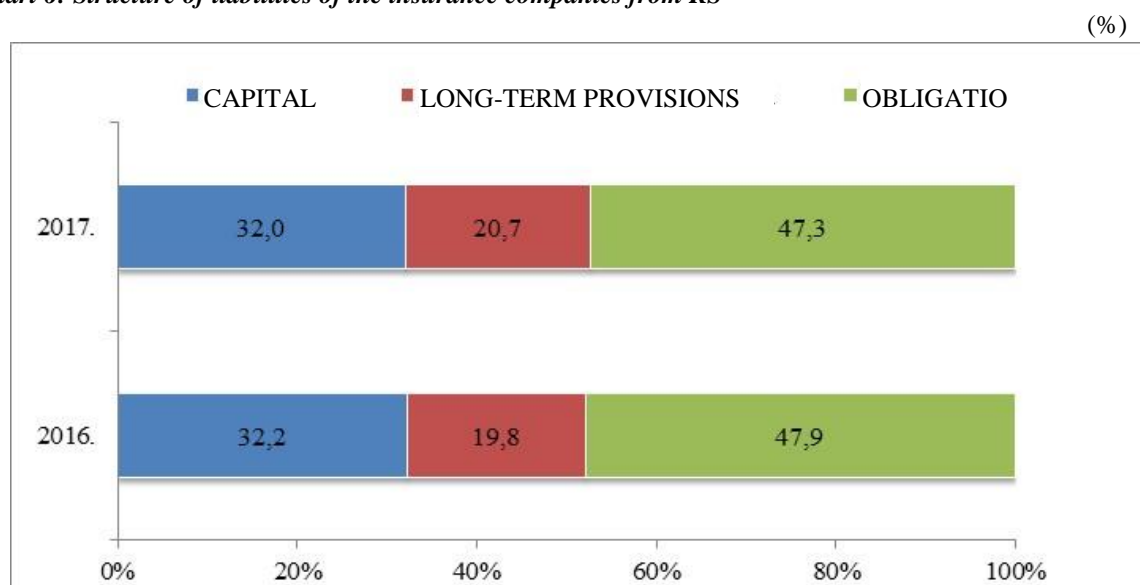


LIABILITIES	31 December 2016		31 December 2017		Index 2017/16
	Amount	Share	Amount	Share	
2.5. Other accrued costs and deferred income	4,371,574	1.1 %	3,326,119	0.8 %	76.1
2.6. Other short-term liabilities	23,502,203	5.9 %	26,303,162	6.1 %	111.9
<b>D. OPERATING LIABILITIES (A+B+C)</b>	<b>396,359,547</b>	<b>100.0 %</b>	<b>432,730,026</b>	<b>100.0 %</b>	<b>109.2</b>
<b>E. OFF-BALANCE-SHEET LIABILITIES</b>	<b>5,784,262</b>		<b>4,464,480</b>		<b>77.2</b>
<b>F. TOTAL LIABILITIES</b>	<b>402,143,809</b>		<b>437,194,506</b>		<b>108.7</b>

Source: Balance sheets of the insurance companies from RS

The chart below shows the structure of liabilities for 2016 and 2017.

Chart 6: Structure of liabilities of the insurance companies from RS



Source: Balance sheets of the insurance companies from RS

In the structure of operating liabilities, as at 31 December 2017, the share of capital was 32.0%, the share of long-term provisions was 20.7%, and the share of obligations was 47.3%, whereby technical reserves (unearned premiums and outstanding claims reserves) comprised 85.5% of the total obligations.

It must be noted that, in the structure of operating liabilities, the share of technical reserves of life and non-life insurance was 40.4%, the share of mathematical reserve and provisions for participation in life insurance profit was 20.3%, and the share of capital was 32.0%, i.e. the total share of these items in operating liabilities was 92.7%. The share of these items and their interrelationship were in accordance with the core activity and the portfolio structure of the insurance companies.

The item of capital had an increase of 8.3% in comparison with the previous year, within which there was an increase of 3.0% in reserves from profit, and an increase of 57.9% in unrealised gains from financial assets available for sale. The amount of undistributed profit increased by 33.0%, within which there was an increase of 41.0% in undistributed profit from previous years, and an increase of 31.0% in undistributed profit from the current year.

Within the item of capital, there was a decrease in the items of share capital (2.9%), share issuance premium (92.1%), share issuance loss (0.7%), revaluation reserves (2.3%), and unrealised losses from financial assets available for sale (2.4%). The decrease in share capital

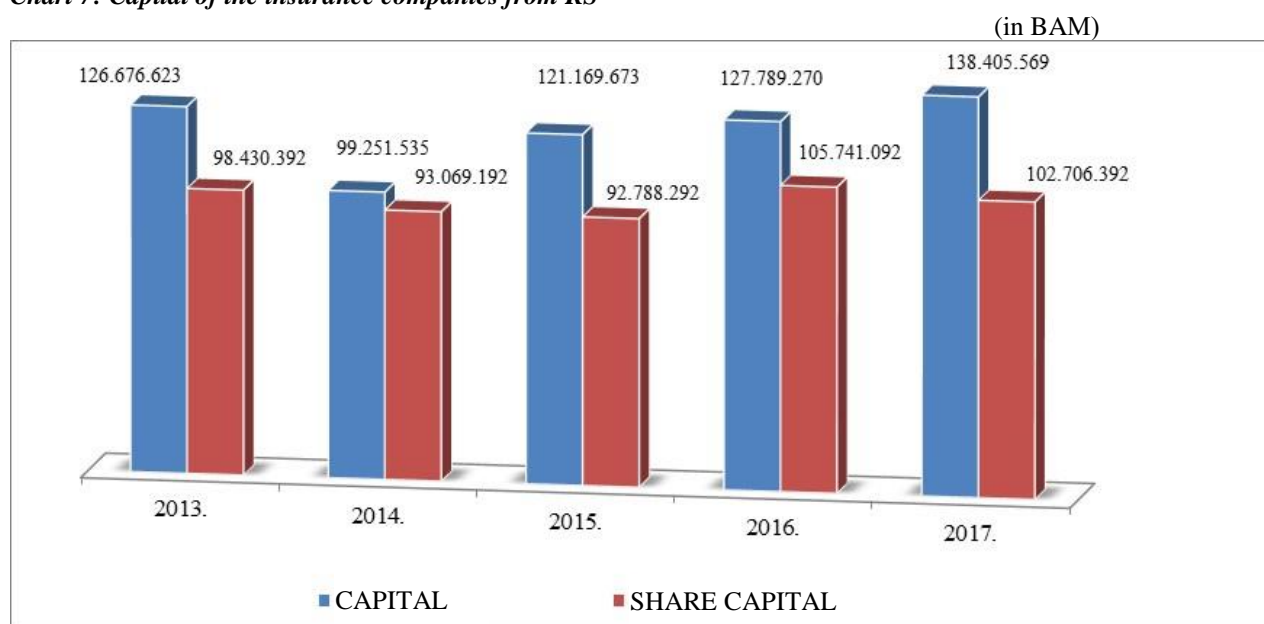


and share issuance premium was significantly affected by loss coverage with one insurance company. The decrease in share issuance loss, revaluation reserves and unrealised losses from financial assets available for sale was not substantially significant, because the individual share of these items in operating liabilities was below 1%.

The amount of loss up to the amount of capital decreased by 30.1%, within which the amount of loss from the current year decreased by 77.9%, and the amount of loss from previous years increased by 99.8%, because one insurance company, acting upon the order of the Agency, assessed the fair value of the property. The assessment resulted in correction of the financial statements for 2016, in accordance with the International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

The chart below gives an overview of movement of capital for the period 2013-2017:

**Chart 7: Capital of the insurance companies from RS**



Source: Balance sheets of the insurance companies from RS

The item of long-term provisions had an increase of 14.1%. Within this item, there was an increase of 18.2% in mathematical reserve, and an increase of 2.8% in provisions for participation in life insurance profit, which is in accordance with the age structure of the life insurance portfolio, and which represents a continuation of a positive trend. The amounts of mathematical reserve and provisions for participation in life insurance profit comprised 98.1% of long-term provisions. Apart from that, within the item of long-term provisions, there was a decrease of 76.9% in provisions for outstanding court cases and other long-term provisions, which is related to the decrease in provisions from an enforceable court decision with one insurance company, which did not arise from the insurance activity, and to the cancellation of provisions due to a completed court case with another company.

In comparison with the previous year, the total obligations increased by 7.7%. The amount of short-term obligations and accruals and deferred income increased by 7.7%. The amount of long-term obligations decreased by 26.4%, but their share in total liabilities was only 0.02%.

The increase in short-term obligations was affected by the increase in the items of technical reserves, i.e. in the items of unearned premium and outstanding claims reserves for life and non-life insurance, whose share in short-term obligations was 85.5%. The amount of other accruals and deferred income decreased by 23.9%, but their share in operating liabilities was only 0.8%.

## 2.2.2. Income statement

The table below gives a collective overview of the income statement items for all insurance companies with HQ in the Republic of Srpska, for 2016 and 2017.

*Table 17: Income statement – total for all insurance companies from RS*

ITEM	2016	Share	2017	Share	Index 2017/16
	Amount		Amount		
(in BAM)					
<b>A. OPERATING INCOME AND EXPENSES</b>					
<b>I - Operating income (1+2+3+4+5+6)</b>	200,267,803	93.0 %	219,831,516	91.1 %	109.8
1. Income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession in terms of life insurance	21,833,725		23,439,570		107.4
2. Income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession in terms of non-life insurance	158,000,413		173,519,981		109.8
3. Income from participation of co-insurance and reinsurance and retrocession in compensation for damage in terms of non-life insurance	7,087,315		6,101,597		86.1
4. Income from cancellation and reduction of provisions in terms of non-life insurance	4,179,563		5,704,080		136.5
5. Income from return of taxes and other levies, and income from premiums, subsidies, grants, donations, etc.	247,386		193,570		78.2
6. Other operating income	8,919,401		10,872,718		121.9
<b>II - Operating expenses (1+2)</b>	185,634,842	91.6 %	195,819,494	93.6 %	105.5
1. Functional expenses (1.1.+1.2.+1.3.)	106,867,932		112,552,077		105.3
1.1. Expenses for long-term provisions and functional contributions	16,009,408		16,804,885		105.0
1.2. Compensation for damage, contractual amounts and premiums in terms of co-insurance and reinsurance	8,582,198		8,872,500		103.4
1.3. Compensation for damage and other types of compensation in terms of non-life insurance	82,276,326		86,874,692		105.6
2. Expenses for execution of insurance	78,766,910		83,267,417		105.7
<b>III - Operating profit/loss (I-II)</b>	14,632,961		24,012,022		164.1
<b>B. FINANCIAL INCOME AND EXPENSES</b>					
I - Financial income	10,260,808	4.8 %	10,264,648	4.3 %	100.0
II - Financial expenses	771,187	0.4 %	1,016,127	0.5 %	131.8
<b>III - Financial profit/loss (I-II)</b>	9,489,621		9,248,521		97.5
<b>AB - Profit/loss from regular operation (AIII+BIII)</b>	<b>24,122,582</b>		<b>33,260,543</b>		137.9
<b>C. OTHER INCOME AND EXPENSES</b>					
I - Other income	3,688,197	1.7 %	6,300,258	2.6 %	170.8
II - Other expenses	10,875,024	5.4 %	9,925,696	4.7 %	91.3
<b>III - Profit/loss from other income and expenses (I-II)</b>	-7,186,827		-3,625,438		50.4
<b>D. INCOME AND EXPENSES FROM PROPERTY VALUE ADJUSTMENT</b>					
I - Income from property value adjustment	549,459	0.3 %	3,240,164	1.3 %	589.7
II - Expenses from property value adjustment	4,385,075	2.2 %	2,049,706	1.0 %	46.7
<b>III - Profit/loss from property value adjustment (I-II)</b>	-3,835,616		1,190,458		
<b>E. INCOME FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS FROM PREVIOUS YEARS</b>					
	245,546	0.1 %	85,382	0.0 %	34.8
<b>E I - EXPENSES FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS FROM PREVIOUS YEARS</b>					
	120,385	0.1 %	109,150	0.1 %	90.7

Report on the state of play of the insurance sector in the Republic of Srpska  
for the period from 1 January 2017 to 31 December 2017

ITEM	2016	Share	2017	Share	Index 2017/16
	Amount		Amount		
<b>F. PROFIT/LOSS BEFORE TAX (AB+CI+DIII+E-EI)</b>	<b>13,225,300</b>		<b>30,801,795</b>		232.9
<b>G. CURRENT AND DEFERRED INCOME TAX - Tax expenses in the reporting period</b>	2,500,780		3,577,081		143.0
<b>H - DEFERRED TAX EXPENSES IN THE REPORTING PERIOD</b>	248,807	0.1 %	26,161	0.0 %	10.5
<b>HI - DEFERRED TAX INCOME IN THE REPORTING PERIOD</b>			1,816		
<b>I. NET PROFIT / NET LOSS IN THE REPORTING PERIOD (F-G-H+HI)=(I 1-I 2)</b>	<b>10,475,713</b>		<b>27,200,369</b>		259.7
1. Net profit in the current year	22,780,626		29,920,440		131.3
2. Net loss in the current year	12,304,913		2,720,071		22.1
<b>J. OTHER GAINS AND LOSSES IN THE REPORTING PERIOD</b>					
I - Gains determined directly in the capital	329,229	0.2 %	1,700,565	0.7 %	516.5
II - Losses determined directly in the capital	731,210	0.4 %	96,572	0.0 %	13.2
III - Income tax referring to other gains and losses	36,287		123,116	0.1 %	339.3
<b>K. TOTAL NET RESULT IN THE ACCOUNTING PERIOD (I+JI-JII±JIII)</b>	<b>10,110,019</b>		<b>28,681,246</b>		283.7
<b>L. TOTAL INCOME AND GAINS (AI+BI+CI+DI+E+HI+JI)</b>					
	<b>215,341,042</b>	<b>100.0 %</b>	<b>241,424,349</b>	<b>100.0 %</b>	<b>112.1</b>
<b>M. TOTAL EXPENSES AND LOSSES (AII+BII+CII+DII+EI+JII±JIII+H)</b>					
	<b>202,730,243</b>	<b>100.0 %</b>	<b>209,166,022</b>	<b>100.0 %</b>	<b>103.2</b>
<b>N. TOTAL GROSS RESULT IN THE ACCOUNTING PERIOD (L-M)</b>					
	<b>12,610,799</b>		<b>32,258,327</b>		<b>255.8</b>
<b>O. CURRENT AND DEFERRED INCOME TAX (G)</b>					
	<b>2,500,780</b>		<b>3,577,081</b>		<b>143.0</b>
<b>P. TOTAL NET RESULT IN THE ACCOUNTING PERIOD (N-O)=K</b>					
	<b>10,110,019</b>		<b>28,681,246</b>		<b>283.7</b>

*Sources: Income statements of the insurance companies from RS*

The total income in 2017, including gains determined directly in the capital, was BAM 241,424,349, representing an increase of 12.1% in comparison with the previous year.

The amount of operating income was BAM 219,831,516, which was higher by 9.8%, and they comprised 91.1% of the total income. As for operating income, the amount of income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession increased by 7.4% in terms of life insurance, and 9.8% in terms of non-life insurance. The amount of income from cancellation and reduction of non-life insurance provisions increased by 36.5%, and other operating income increased by 21.9%.

Within operating income, there was a decrease of 13.9% in income from participation of co-insurance and reinsurance and retrocession in compensation for damage in terms of non-life insurance, and a decrease of 21.8% in income from return of taxes and other levies, and income from premiums, subsidies, grants, donations, etc.

The share of income from cancellation and reduction of provisions in terms of non-life insurance, income from participation of co-insurance and reinsurance and retrocession in compensation for damage in terms of non-life insurance, income from return of taxes and other levies, and income from premiums, subsidies, grants, donations, etc., and other operating income in the total amount of operating income was around 10%, and their changes were not substantially significant from the standpoint of the overall result.

The amount of financial income comprised 4.3% of the total income, and it was slightly higher in comparison with the previous year. The share of other income in the total income

was 2.6%, representing an increase of 70.8%, and their increase was affected by recovery of claims from previous years.

The share of income from property value adjustment in the total income was 1.3%, which was 5.9 times higher, and they mainly referred to the adjustment of value of the investment property acquired by recovery of claims from specific activities through the court for one insurance company.

Although the amount of income from changes in accounting policies and correction of errors from previous years decreased by 65.2%, and gains determined directly in the capital were 5 times higher, their changes were not substantially significant, because their joint share in the total income was only 0.7%.

The total expenses in 2017, including losses determined directly in the capital, were BAM 209,166,022, representing an increase of 3.2% in comparison with the previous year.

The amount of operating expenses comprised 93.6% of the total expenses, and they totalled BAM 195,819,494. The amount of functional expenses comprised 57.5% of operating expenses, and they were higher by 5.3%. Within functional expenses, the amount of expenses for long-term provisions and functional contributions increased by 5%, and compensation for damage, contractual amounts and premiums in terms of co-insurance and reinsurance increased by 3.4%. The amount of compensation for damage and other types of compensation in terms of non-life insurance, which comprises 77.2% of functional expenses, increased by 5.6%.

The amount of expenses for execution of insurance increased by 5.7%, within which the share of expenses for material, energy, services and intangible expenses was 65.8%, representing an increase of 16.7%.

The share of other expenses in the total expenses was 4.7%, representing a decrease of 8.7%, which was significantly affected by the decrease in expenses from adjustment of claims in one insurance company.

In the structure of total expenses, the share of financial expenses was 0.5%, the share of expenses from property value adjustment was 1.0%, the share of expenses from changes in accounting policies and correction of errors from previous years was 0.1%, and the share of losses determined directly in the capital was 0.05%. Due to the insignificant share in the total expenses, the changes in the items of the above-mentioned expenses did not substantially affect the total net result in 2017, regardless of their relative change.

The amount of operating profit was BAM 24,012,022, and it was higher by 64.1%, while the amount of profit from regular operation (including financial income and expenses) totalled BAM 33,260,543, representing an increase of 37.9%.

The total net result in the accounting period, calculated as the difference between the total income, gains determined directly in the capital and deferred tax income, on the one side, and the total expenses and losses determined directly in the capital, and current and deferred income tax and deferred tax expenses in the period on the other side, was a profit in the amount of BAM 28,681,246. Twelve insurance companies generated a net profit in the amount of BAM 30,293,270, while two insurance companies generated a net loss in the

amount of BAM 1,612,024. Nevertheless, the loss generated by these insurance companies did not hinder their compliance with the capital adequacy requirements.

In accordance with the recommendations of an independent auditor, in a letter sent to the management for 2016, one insurance company assessed the fair value of its property upon the order of the Agency, which resulted in correction of the financial statements for 2016. The corrections were made in accordance with the International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors. For this reason, particular data for 2016 presented in this report differ from the data for the same year in the Report on the state of play in the insurance sector for the period from 1 January to 31 December 2016. Specifically, operating assets and liabilities for 2016 are lower by BAM 4,067,928, while the total net result in the accounting period is lower by BAM 4,365,365.

### **2.2.3. Consolidated financial statements**

Of the total of 14 insurance companies, four insurance companies exercise direct or indirect control over one or several legal persons or exercise significant influence over other legal persons. Therefore, pursuant to the Article 19 of the Law on Accounting and Auditing of the Republic of Srpska, they are obliged to develop consolidated financial statements of the related legal persons which comprise one economic unit.

In accordance with the above-mentioned requirement, the insurance companies developed and submitted to the Agency audited consolidated financial statements. In their consolidated financial statements, two insurance companies reported a profit totalling BAM 5,032,240, while two insurance companies reported a loss totalling BAM 2,930,958. The total net result in the reporting period for these insurance companies, as reported in the audited consolidated financial statements, was positive and it totalled BAM 2,101,282.

The profit reported in the individual audited financial statements of these insurance companies totalled BAM 2,326,139, which was higher by BAM 224,857 in comparison with the profit reported in the audited consolidated financial statements.

## **2.3. Financial and technical indicators**

### **2.3.1. Compliance with the capital adequacy requirements**

The insurance companies with HQ in the Republic of Srpska are obliged to continuously maintain the amount of capital, which is adequate for the scope and types of the insurance activity that they pursue, and for the risks to which they are exposed in the pursuit of the insurance activity.

The capital adequacy of an insurance company is measured in terms of compliance with the prescribed requirements, i.e. the available capital of the insurance company must be at least equal to the adequacy threshold of the available capital<sup>4</sup>, while the share capital must be at least equal to the amount of the guarantee fund<sup>5</sup>. Composite insurance companies must

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<sup>4</sup> The adequacy threshold of the available capital represents the amount of the solvency margin or the minimum prescribed amount of the share capital for insurance companies, whichever is larger.

<sup>5</sup> The guarantee fund corresponds to 1/3 of the solvency margin or the minimum prescribed amount of the share capital for insurance companies, whichever is larger.

report the compliance with the capital adequacy requirements separately for life and non-life insurance.

**Table 18: Compliance with the capital adequacy requirements**

No	Description	(in BAM)			
		2016		2017	
		Non-life insurance	Life insurance	Non-life insurance	Life insurance
1.	Share capital	90,168,378	12,905,618	86,150,399	14,289,633
2.	Guarantee fund	57,000,000	9,000,000	57,000,000	9,000,000
3.	More/less share capital (1-2)	33,168,378	3,905,618	29,150,399	5,289,633
4.	Available capital	81,192,358	12,905,618	79,959,064	12,353,882
5.	Adequacy threshold of the available capital	57,000,000	9,086,032	57,000,000	9,428,604
6.	More/less available capital (4-5)	24,192,358	3,819,586	22,959,064	2,925,278

*Source: Reports of the insurance companies from RS*

The total share capital of all insurance companies with HQ in the Republic of Srpska, as at 31 December 2017, including the capital of both life and non-life insurance, was BAM 100,440,032, and it was higher than the guarantee fund by BAM 34,440,032 or 52.2%. The share capital for non-life insurance was higher by 51.1%, and the share capital for life insurance was higher by 58.8% than the guarantee fund.

The total available capital of all insurance companies with HQ in the Republic of Srpska<sup>6</sup>, as a total for life and non-life insurance, determined for the purpose of reporting the compliance with the capital adequacy requirements, was BAM 92,312,946, as at 31 December 2017. The surplus of available capital, in relation to the adequacy threshold of the available capital, was reported in the amount of BAM 25,884,342 (or 39.0%), of which BAM 22,959,064 in non-life insurance (or 40.3%) and BAM 2,925,278 of surplus in life insurance (or 31.0%).

Apart from reporting the overall compliance with the capital adequacy requirements, all insurance companies with HQ in the Republic of Srpska individually complied with the prescribed capital adequacy requirements.

In addition to that, all insurance companies with HQ in the Republic of Srpska individually ensured additional funds for protection of insured persons and maintenance of solvency of the insurance company, which may not be used for any other purpose. Namely, apart from complying with the prescribed capital adequacy requirements, insurance companies are obliged to keep the amount of at least 50% of the minimum guarantee fund required in a special-purpose term deposit or in securities issued or guaranteed by Bosnia and Herzegovina, the Republic of Srpska or the Central Bank of BiH. All insurance companies

<sup>6</sup> It must be noted that the amount of capital, determined for the purpose of complying with the capital adequacy requirements, differs from the amount of capital reported in the balance sheet.



complied with this requirement, i.e. they possessed the required coverage in the above-mentioned funds.

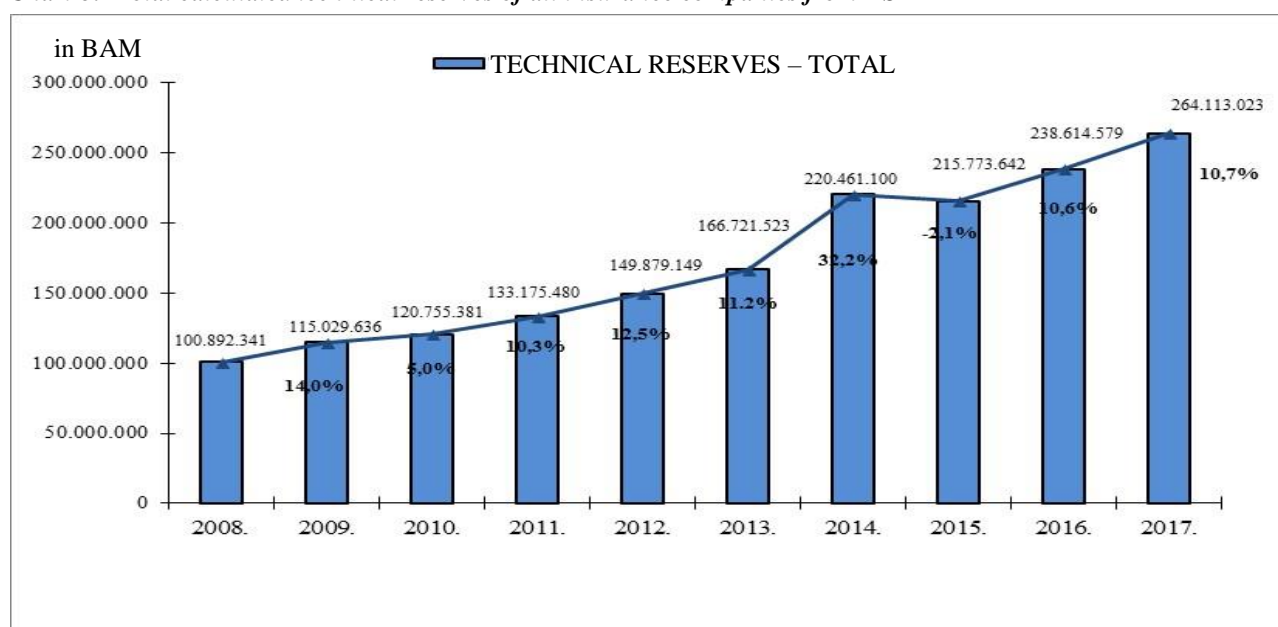
### 2.3.2. Calculation and coverage of technical reserves by the prescribed types of assets

#### 2.3.2.1. Total calculated technical reserves

The calculation of technical reserves based on the actuarial cost method is an important prerequisite for maintenance of solvency of insurance companies, which contributes to better protection of interests of insured persons and beneficiaries, as well as to strengthening the trust in the insurance activity. The rules for calculation of technical reserves are prescribed by the bylaws of the Agency, and their adequate enforcement is subject to control both by the certified actuaries and the Agency, through mandatory reports submitted by the insurance companies on a periodical basis and through direct controls.

The chart below illustrates an overview of the total calculated technical reserves of all insurance companies with HQ in the Republic of Srpska, in the period from 2008 to 2017.

**Chart 8: Total calculated technical reserves of all insurance companies from RS**



Source: Reports of the insurance companies from RS

As at 31 December 2017, the total calculated technical reserves of all insurance companies with HQ in the Republic of Srpska were higher by 10.7% in comparison with the same day of the previous year.

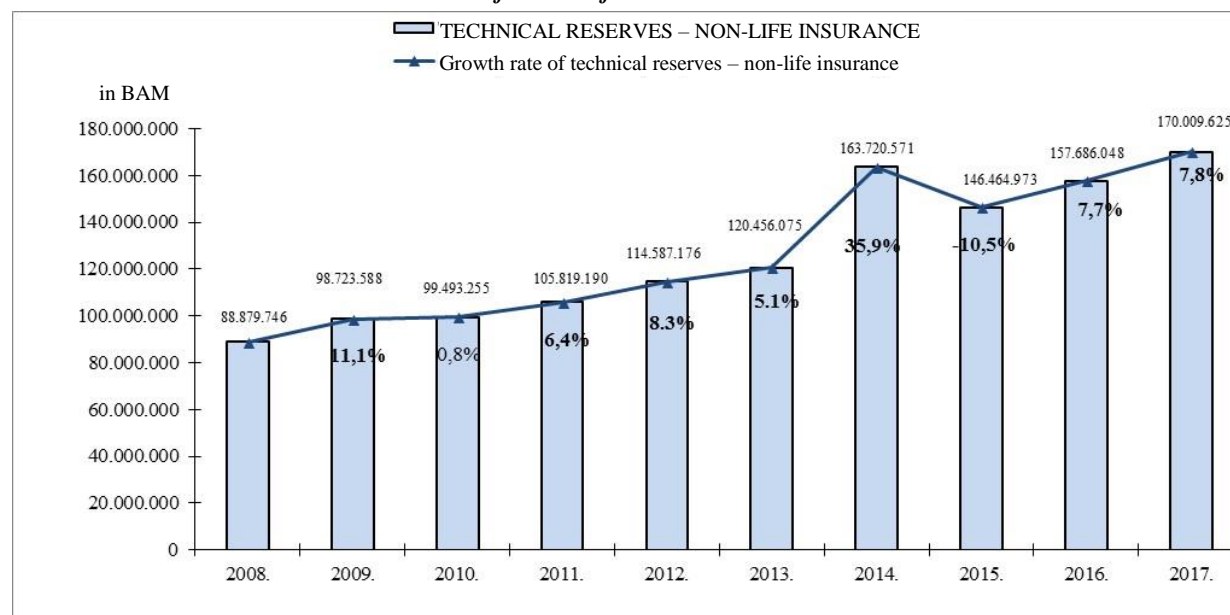
For the purpose of maintaining the financial capacities to fulfil the obligations to pay the compensation under insurance contracts, the insurance company is obliged to invest the funds for coverage of technical reserves in the prescribed types of assets, applying the principles of security and profitability, and taking into account investment dispersion.

Considering the different investment requirements and restrictions applied for life and non-life insurance, below is a separate analysis of the investment of funds for coverage of technical reserves.

### 2.3.2.2. Calculation and funds for coverage of technical reserves for non-life insurance

The total calculated technical reserves for non-life insurance, in the period from 2008 to 2017, are shown in the chart below.

**Chart 9: Total calculated technical reserves for non-life insurance**



Source: Reports of the insurance companies from RS

Along with the premium growth, technical reserves for non-life insurance increased by 91.3% in the period from 2008 to 2017.

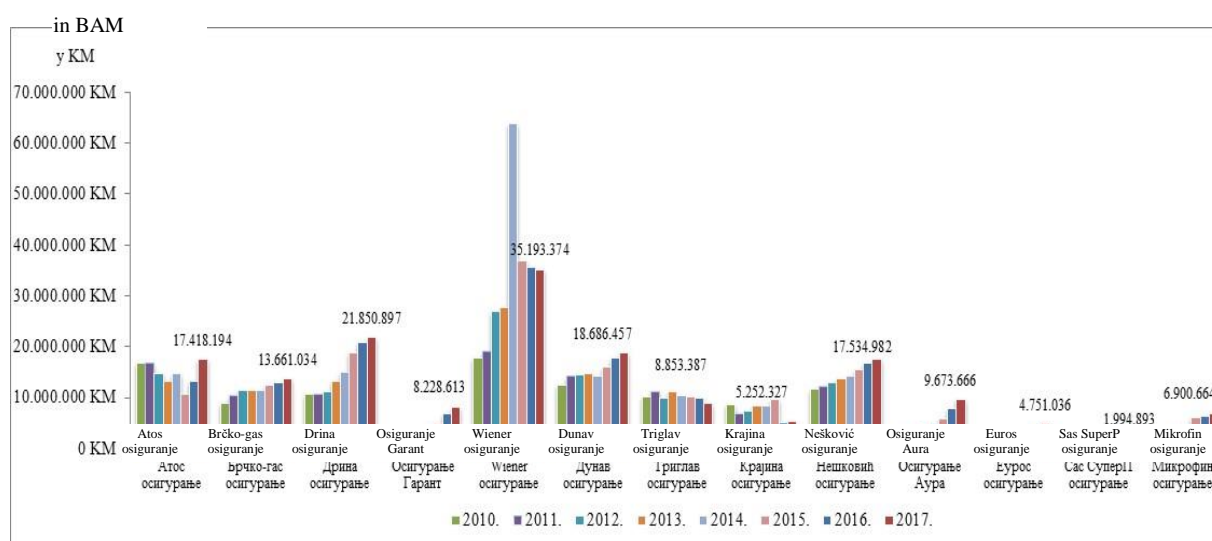
The total calculated technical reserves for non-life insurance, as at 31 December 2017, were BAM 170,009,625, and they were higher by 7.8% in comparison with the previous year.

The chart below shows the calculated technical reserves for non-life insurance individually, by insurance company with HQ in the Republic of Srpska.<sup>7</sup>

**Chart 10: Overview of the calculated technical reserves for non-life insurance by insurance company from RS**  
(in BAM)

<sup>7</sup> The chart does not give the information on the calculated technical reserves for non-life insurance for Grawe osiguranje a.d. Banja Luka, because they total only BAM 10,102 (0.006%), which is in accordance with the non-life insurance premium written by this company. Therefore, such information would not be visible in the chart.



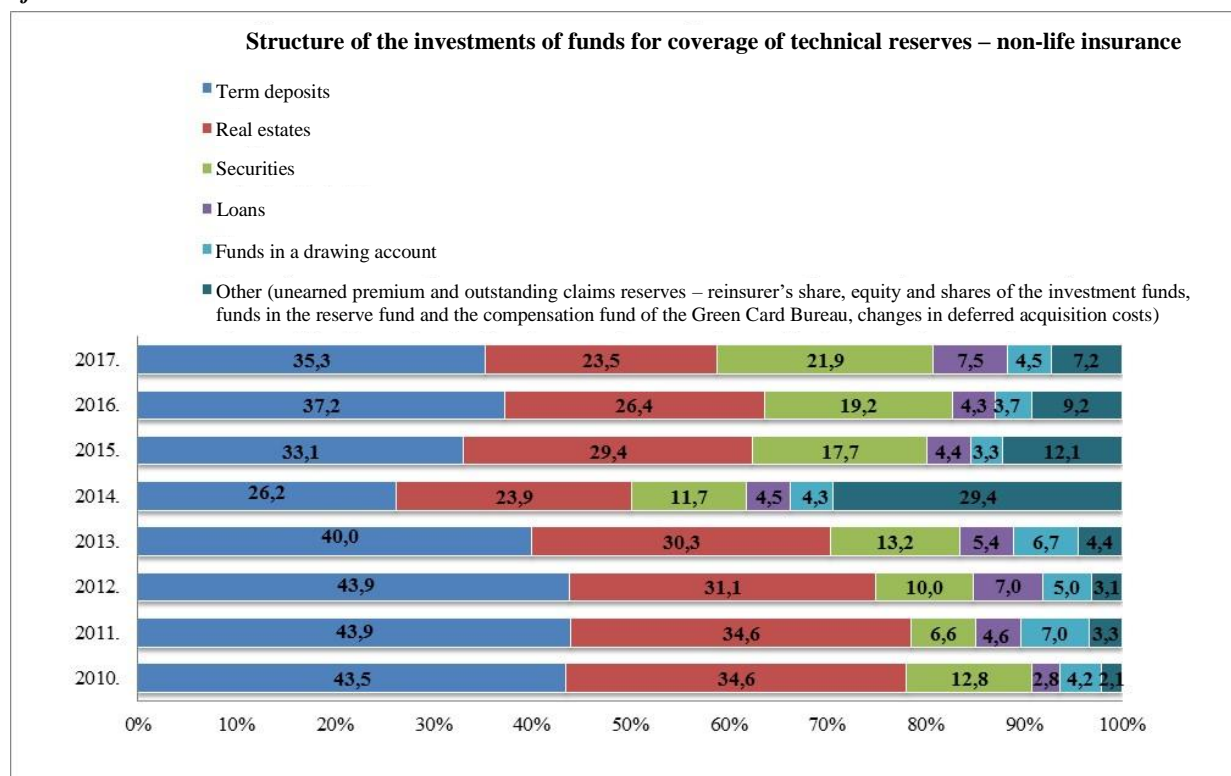


Source: Reports of the insurance companies from RS

The chart shows that, at 31 December 2017, there was a decrease in the amount of calculated technical reserves of two insurance companies in comparison with the same day of the previous year.

The chart below shows the structure of the investments of funds for coverage of technical reserves for non-life insurance.

Chart 11: Structure of the investments of funds for coverage of the total calculated technical reserves for non-life insurance



Source: Reports of the insurance companies from RS

In the structure of the investments of funds for coverage of technical reserves for non-life insurance, term deposits, real estates and securities had the highest share – a total of 80.7%.

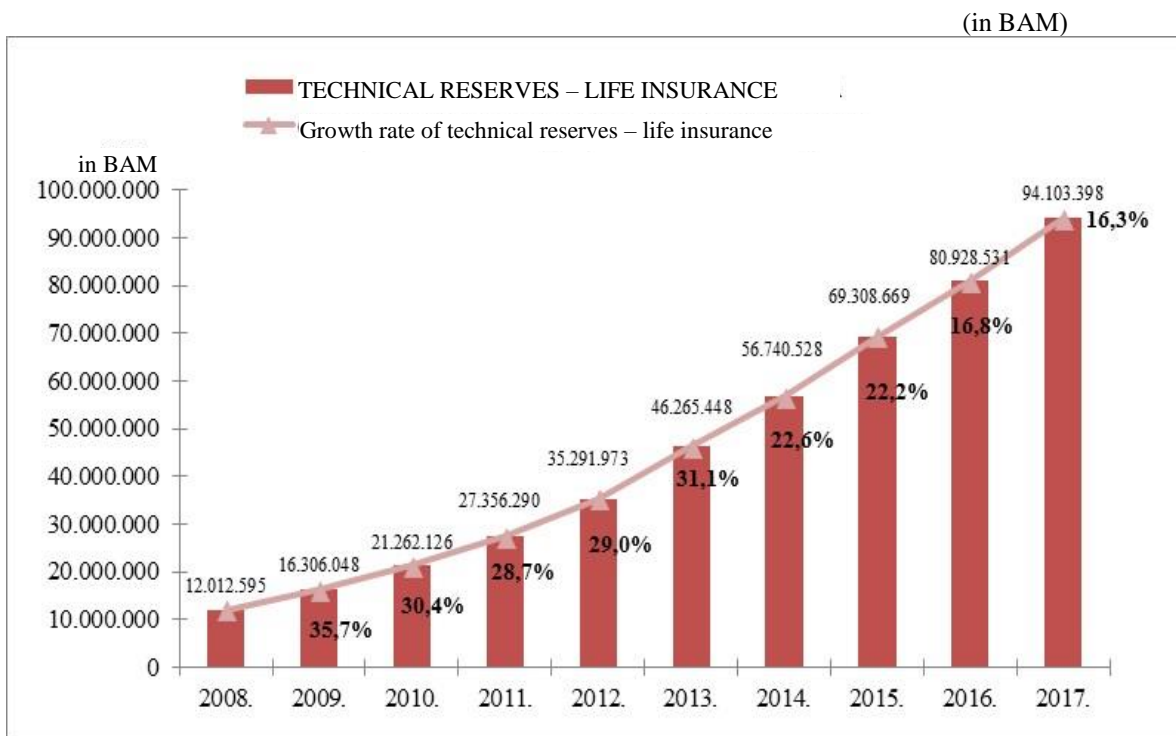
There has been a continuous increase in investments in securities, particularly in government bonds. As regards investment in real estates, there has been a continuous risk in terms of real assessment of their value.

At the end of 2017, one non-life insurance company reported a shortage of 10.7% of funds for coverage of technical reserves. In the period of development of this report, the Agency imposed a control measure on this company, which should result in elimination of the identified shortage. The other companies which pursue non-life insurance ensured quantitative and qualitative compliance with the prescribed requirements related to coverage of technical reserves for non-life insurance.

**2.3.2.3. Calculation and funds for coverage of technical reserves for life insurance**

The technical reserves for life insurance are characterised by dynamic growth caused by the growth of the life insurance premium and the portfolio maturity, and they therefore increased by as many as 7.8 times in the observed period (2008-2017).

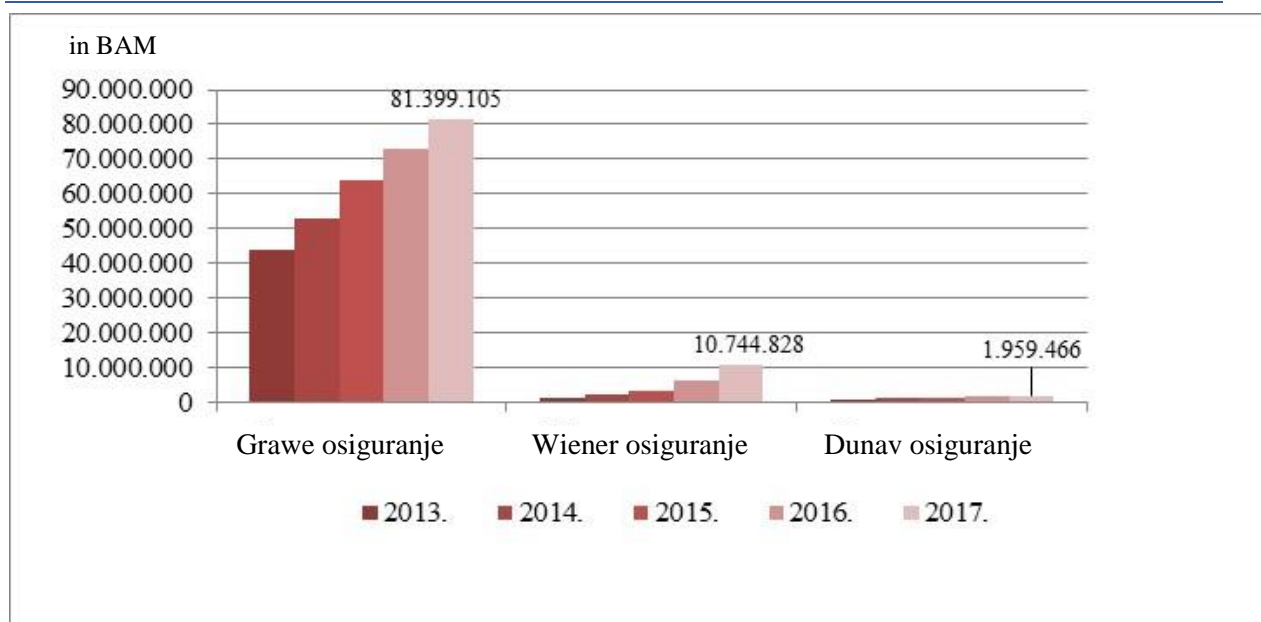
**Chart 12: Total calculated technical reserves for life insurance**



Source: Reports of the insurance companies from RS

The chart below shows the calculated technical reserves for life insurance, individually by insurance company.

**Chart 13: Overview of the calculated technical reserves for life insurance by insurance company from RS**

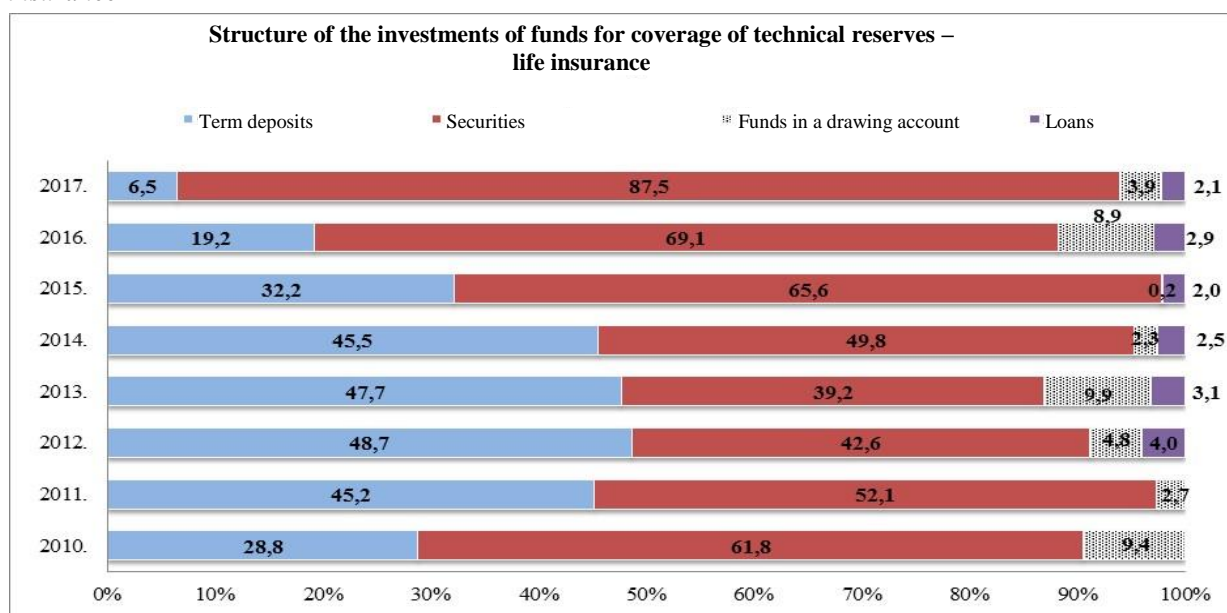


Source: Reports of the insurance companies from RS

The difference in the amount of the calculated technical reserves for life insurance between the individual insurance companies is proportional to the share of these companies in the total life insurance premium, and it is in accordance with the difference in the age structure of the portfolio.

The chart below shows the structure of the investments of funds for coverage of technical reserves for life insurance.

Chart 14: Structure of the investments of funds for coverage of the total calculated technical reserves for life insurance



Source: Reports of the insurance companies from RS

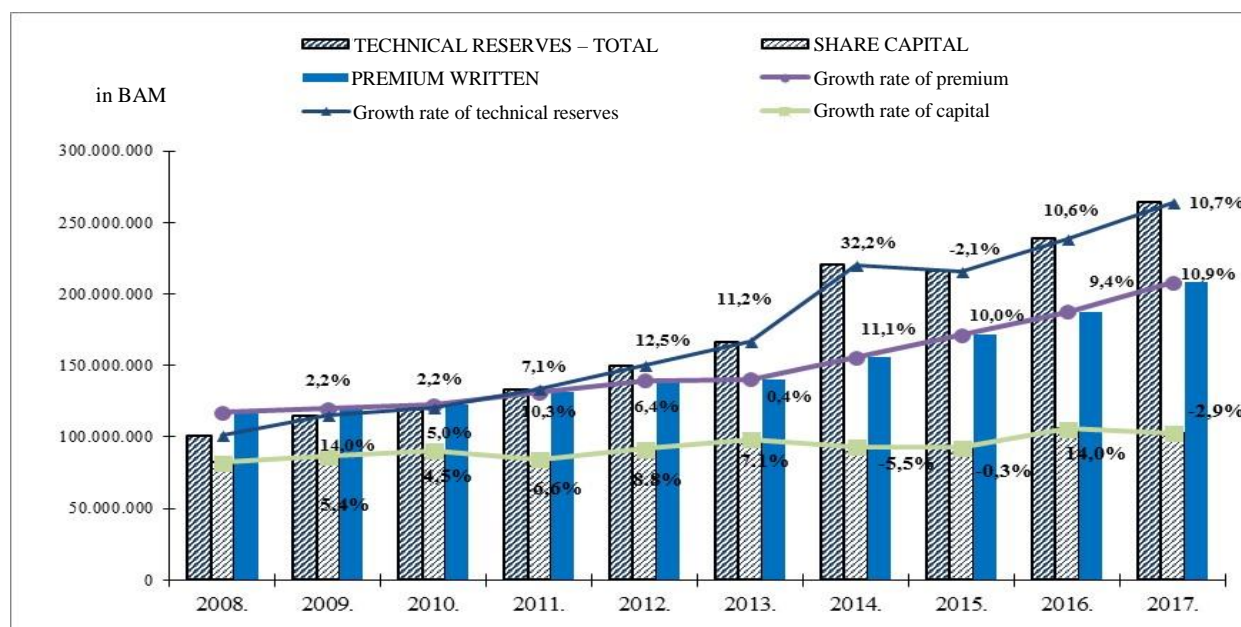
In the structure of the investments of funds for coverage of technical reserves for life insurance, securities issued by domestic issuers and term deposits had the highest share. In terms of securities, government bonds had a dominant role. In the observed period, there was a decrease in the share of the investments in term deposits. All companies which pursue life

insurance ensured continuous quantitative and qualitative compliance with the prescribed requirements related to coverage of technical reserves for life insurance.

### 2.3.3. Comparative overview of key indicators

The chart below shows a comparison of the total amounts of calculated technical reserves, premium written and share capital, in the period from 2008 to 2017.

*Chart 15: Changes in the calculated technical reserves, share capital and premium written*



Source: Reports of the insurance companies from RS

The data from the chart above indicate growth of the premium and the technical reserves, and a slight decrease in the share capital.

As at 31 December 2017, the total amount of the calculated technical reserves was higher than the total premium written by 27.0%.

### 2.3.4. Indicators of paid claims and other compensations from the insurance

The general information related to the settlement and payment of claims and other insurance compensations under insurance contracts (hereinafter referred to as: insurance claims) may be found below.

In 2017, the insurance companies with HQ in the Republic of Srpska paid a total of BAM 63,613,566 to insured persons and beneficiaries, which represents an increase of BAM 2,282,810 or 3.7% in comparison with 2016, when the amount of insurance claims paid was BAM 61,330,756.

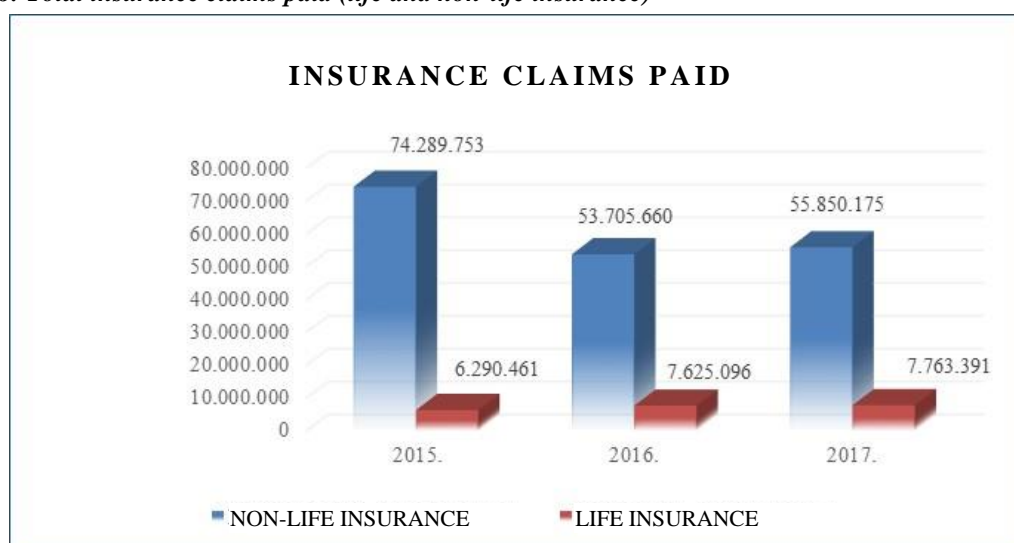
*Table 19: Amount of total insurance claims paid by type of insurance*

( in BAM)			
TYPES OF INSURANCE	2015	2016	2017
Accident insurance	4,836,704	4,440,273	4,502,212
Health insurance	620,852	429,061	601,879

TYPES OF INSURANCE	2015	2016	2017
Land vehicle insurance (except for railway vehicles)	7,517,179	7,277,896	9,011,077
Aircraft insurance		10,468	
Insurance of goods in transport	85,902	18,513	17,267
Insurance of property against fire and natural forces	3,838,790	2,496,166	1,613,958
Insurance against other types of property damage	28,610,307	4,319,691	3,980,139
Motor vehicle liability insurance	28,410,905	34,544,868	35,831,183
Civil liability insurance	95,351	138,512	251,921
Credit insurance	645	1,059	1,451
Insurance against various financial losses	269,899	27,491	35,559
Travel insurance	3,220	1,662	3,529
<b>TOTAL NON-LIFE INSURANCE</b>	<b>74,289,753</b>	<b>53,705,660</b>	<b>55,850,175</b>
Life insurance	5,577,216	6,607,205	7,026,008
Annuities			221
Additional insurance to life insurance	713,246	1,017,891	737,163
<b>TOTAL LIFE INSURANCE</b>	<b>6,290,461</b>	<b>7,625,096</b>	<b>7,763,391</b>
<b>TOTAL:</b>	<b>80,580,214</b>	<b>61,330,756</b>	<b>63,613,566</b>

Source: Reports of the insurance companies from RS

Chart 16: Total insurance claims paid (life and non-life insurance)



Source: Reports of the insurance companies from RS

The table below shows the indicators of efficiency in the settlement and payment of insurance claims for life and non-life insurance.

Table 20: Efficiency in the settlement and payment of insurance claims

Description	2015	2016	2017
Rate of efficiency in the settlement of insurance claims in non-life insurance (in %)	81.4	81.0	82.7
Rate of efficiency in the settlement of insurance claims in life insurance (in %)	90.0	91.9	85.8
Rate of efficiency in the payment of insurance claims in non-life insurance (in %)	98.1	98.7	98.1
Rate of efficiency in the payment of insurance claims in life insurance (in %)	99.9	100.0	100.00

Source: Reports of the insurance companies from RS

The rate of efficiency in the settlement of insurance claims represents the ratio of the total number of settled claims to the total number of recorded claims. The rate of the payment of insurance claims represents the ratio of the total number of paid claims to the total number of settled claims. In the observed period, there were no significant changes in the rate of efficiency in the settlement and payment of insurance claims.

The rates of efficiency in the settlement and payment of insurance claims for motor vehicle liability insurance in 2017, by insurance company, are shown in the table below.

*Table 21: Efficiency in the settlement and payment of insurance claims for motor vehicle liability insurance*

No	Insurance company	The rate of efficiency in the settlement of insurance claims (%)	The rate of efficiency in the payment of insurance claims (%)
1.	Atos osiguranje A.D.	85.7	100.0
2.	D.D. Brčko gas osiguranje	79.5	100.0
3.	Euros osiguranje A.D.	80.6	99.1
4.	Drina osiguranje A.D.	79.6	100.0
5.	Dunav osiguranje A.D.	66.3	100.0
6.	Wiener osiguranje A.D.	77.8	95.5
7.	Krajina osiguranje A.D.	64.6	68.6
8.	Mikrofin osiguranje A.D.	94.7	100.0
9.	Nešković osiguranje A.D.	79.3	100.0
10.	Osiguranje Aura A.D.	91.0	100.0
11.	Osiguranje Garant D.D.	83.7	99.7
12.	Triglav osiguranje A.D.	82.0	95.4
13.	SAS-SuperP OSIGURANJE A.D.	93.6	100.0
	<b>TOTAL:</b>	<b>80.2</b>	<b>98.1</b>

*Source: Reports of the insurance companies from RS*

It must be noted that the rate of efficiency in the settlement of insurance claims also depends on the objective factors that cannot be affected by the insurance company (e.g. the age of the insurance company portfolio, the manner of recording insurance claims, the number of insurance claims in litigation and claims with incomplete documentation, etc.), and that, in order to be a relevant indicator, it must be considered together with the other indicators.

### 2.3.5. Technical result

The technical result, as shown in the table below, was determined as the difference between net earned premiums and net claims, taking into consideration the changes in the other technical reserves, and also, for life insurance, the result generated by investment of funds. The technical result was calculated by using the collective amounts of the items from the reports of all insurance companies with HQ in the Republic of Srpska listed above.

*Table 22: Technical result*

(in BAM)

No	Types of insurance	Technical result		
		2015	2016	2017
1.	Accident insurance	4,017,418	3,954,510	4,568,505
2.	Health insurance	325,558	845,143	849,542



No	Types of insurance	Technical result		
		2015	2016	2017
3.	Land vehicle insurance (except for railway vehicles)	2,356,806	2,523,047	1,645,907
4.	Railway vehicle insurance	0	0	0
5.	Aircraft insurance	-45,651	35,416	20
6.	Vessel insurance	4,462	-24,118	-5,172
7.	Insurance of goods in transport	481,253	437,544	560,965
8.	Insurance of property against fire and natural forces	4,315,999	2,929,707	1,958,103
9.	Insurance against other types of property damage	3,574,427	2,422,404	2,744,097
10.	Motor vehicle liability insurance	63,874,752	73,758,366	85,639,224
11.	Civil liability insurance for aircraft	5,748	5,772	5,390
12.	Civil liability insurance for vessels	2,509	417	1,161
13.	Civil liability insurance	494,838	490,962	604,267
14.	Credit insurance	21,344	64,914	79,266
15.	Guarantee insurance	1,674	6,292	12,899
16.	Insurance against various financial losses	241,909	263,961	438,923
17.	Legal protection insurance	0	0	0
18.	Travel insurance	377,444	2,673	648
	<b>NON-LIFE INSURANCE</b>	<b>80,050,493</b>	<b>87,717,009</b>	<b>99,103,748</b>
19.	<b>LIFE INSURANCE</b>	<b>5,927,538</b>	<b>6,676,695</b>	<b>7,372,020</b>
	<b>TOTAL</b>	<b>85,978,031</b>	<b>94,393,704</b>	<b>106,475,768</b>

Source: Reports of the insurance companies from RS

The total technical result was positive, and if viewed individually, only vessel insurance had a negative technical result. The above-mentioned data indicate that the total premium was sufficient to settle the liabilities towards the insured persons, insurance beneficiaries and third injured parties, whilst it should be noted that the amount of the negative technical result for vessel insurance was substantially insignificant.

### 2.3.6. Loss ratio, expense ratio and combined ratio

Loss ratio represents the ratio of net claims and earned premium, while the expense ratio represents the participation of the expenses associated with acquiring premium in the written premium. The combined ratio shows business result before including the investment results, and it is calculated as the sum of the expense ratio and the loss ratio.

The table below shows the loss ratio, the expense ratio and the combined ratio for non-life insurance, calculated on the basis of the sums of the above-mentioned items from the reports of the insurance companies with HQ in the Republic of Srpska.

Table 23: Loss ratio, expense ratio and combined ratio

DESCRIPTION	2015	2016	2017
Loss ratio (%)	34.3	35.8	33.4
Expense ratio (%)	41.8	41.0	39.9
Combined ratio (%)	76.1	76.8	73.4

Source: Reports of the insurance companies from RS

If the combined ratio is below 100, the difference between 100 and the combined ratio represents a positive result of the insurance activities, and if the combined ratio is above 100, the difference represents the negative result of the insurance activities.

As at 31 December 2017, the combined ratio was below 100, which means that the result of the insurance activities was positive.

### 2.3.7. Profitability indicators

The table below shows the profitability of property and the profitability of own assets, calculated on the basis of the sums of the items from the reports of the insurance companies with HQ in the Republic of Srpska.

*Table 24: Profitability indicators*

DESCRIPTION	2015	2016 <sup>8</sup>	2017
Return on assets (ROA %)	4.3	2.7	6.5
Return on equity (ROE %)	14.4	8.4	20.1

*Source: Reports of the insurance companies from RS*

The property profitability indicator (ROA) is calculated as the ratio of the net result in the accounting period to the average assets, representing the measure of return on total assets.

The equity profitability indicator (ROE) is the ratio of the net result in the accounting period to the average equity, which shows the amount of return on the equity investments of the shareholders. The property and equity profitability indicators increased, in comparison with the previous reporting periods.

### 2.3.8. Other performance indicators

The table below shows the other performance indicators, calculated on the basis of the sums of the items from the reports of the insurance companies with HQ in the Republic of Srpska.

*Table 25: Other performance indicators*

DESCRIPTION	2015	2016 <sup>9</sup>	2017
Premium per employee (in BAM)	119,807	134,429	143,768
Total income per employee (in BAM)	162,382	154,477	166,960
Profit per employee (in BAM)	11,062	7,515	18,811
Profit / Total income (%)	6.8	4.9	11.3
Solvency ratio (%)	80.9	77.5	74.9
General liquidity (%)	5.7	5.6	4.7

*Source: Reports of the insurance companies from RS*

In the observed period, there were no significant changes in the performance indicators listed in the table above.

The solvency ratio in 2017, albeit lower in comparison with the previous year, still shows that the solvency was not hindered, given the fact that the capital was significantly higher than the

<sup>8</sup> The data for 2016 differ from the data given in the Report on the state of play of the insurance sector for the period from 1 January to 31 December 2016, due to the corrections made to the financial statements, which is explained in more detail in the chapter 2.2. Balance structure.

<sup>9</sup> The data for 2016 differ from the data given in the Report on the state of play of+ the insurance sector for the period from 1 January to 31 December 2016, due to the corrections made to the financial statements, which is explained in more detail in the chapter 2.2. Balance structure.



net premium (74.9%). It must be taken into account that the total solvency also depends on the capital adequacy and the coverage of the minimum guarantee fund as an additional form of protection of the insured persons and beneficiaries (see the data given within the chapter 2.3, point 2.3.1). The general liquidity coefficient is much higher than 1, which indicates the capability to settle the liabilities within the periods of maturity. The other indicators are at a higher level due to the increase in the premium and the profit growth rate from the growth rate of the number of employees in 2017.

### 3. VOLUNTARY PENSION INSURANCE

In this reporting period, the activities in the voluntary pension insurance market were not intensive, because the only company for management of voluntary pension fund fulfilled the requirements to pursue the activity only in the third quarter of 2017.

#### 3.1.1. Company for management of voluntary pension fund

In the reporting period, the activity of voluntary pension insurance was pursued by one company for management of voluntary pension fund, which is: Company for the Management of the European Voluntary Pension Fund JSC Banja Luka. After obtaining the licence to organise and manage one voluntary pension fund, this company started pursuing the activity of voluntary pension insurance in the course of the third quarter of 2017.

According to the ownership structure, as at 31 December 2017, this company had the majority foreign ownership with the share of 67% in the equity (*Skupna* d.d. Ljubljana – 34%, *European Bank for Reconstruction and Development* – 16.5%, and *Enterprise Expansion Fund* – 16.5%).

The table below shows a shortened overview of the balance sheet of the company for voluntary pension fund management, as at 31 December 2017.

**Table 26: Balance sheet of the company for voluntary pension fund management**

(in BAM)

ITEM	31 December 2017	%
<b>ASSETS</b>		
A. FIXED ASSETS	1,586,534	38.6
I - Intangible assets	26,736	0.7
II - Real estates, plant, equipment and investment property	209,798	5.1
III - Biological assets and agricultural produce	0	0.0
IV - Long-term financial investments	1,350,000	32.8
V - Deferred tax funds	0	0.0
B. CURRENT ASSETS	2,524,678	61.4
I - Inventories, fixed assets and assets of discontinued operations held for sale	0	0.0
II - Short-term receivables, short-term investments and cash	2,524,678	61.4
III - Deferred tax funds	0	0.0
C. BUSINESS ASSETS	4,111,212	100.0
D. LOSS OVER THE CAPITAL	0	0.0
E. OPERATING ASSETS	4,111,212	100.0
F. OFF-BALANCE-SHEET ASSETS	0	0.0
<b>G. TOTAL ASSETS</b>	<b>4,111,212</b>	<b>100.0</b>
<b>LIABILITIES</b>		
A. CAPITAL	4,073,682	99.1
I - Share capital	4,400,000	107.0
II - Subscribed capital unpaid	0	0.0
III - Share issuance premium	0	0.0
IV - Share issuance loss	0	0.0
V - Reserves	0	0.0
VI - Revaluation reserves	0	0.0
VII - Unrealised gains on financial assets available for sale	0	0.0
VIII - Unrealised losses on financial assets available for sale	285	0.0
IX - Undistributed profit	0	0.0

ITEM	31 December 2017	%
X - Loss up to the amount of capital	326,033	7.9
B. PROVISIONS, DEFERRED TAX LIABILITIES AND ACCRUED INCOME	0	0.0
C. OBLIGATIONS	37,530	0.9
I - Long-term obligations	0	0.0
II - Short-term obligations	37,530	0.9
D. OPERATING LIABILITIES	4,111,212	100.0
E. OFF-BALANCE-SHEET LIABILITIES	0	0.0
<b>F. TOTAL LIABILITIES</b>	<b>4,111,212</b>	<b>100.0</b>

*Source: Balance sheet of the company for voluntary pension fund management*

The amount of operating assets and liabilities, as at 31 December 2017, was BAM 4,111,212.

In the structure of operating assets, the share of fixed assets was 38.6%, and the share of current assets was 61.4%.

The share of long-term financial investments within fixed assets was 85.1%. They totalled BAM 1,350,000 and they referred to the investment in the financial assets available for sale (bonds of the Republic of Srpska) and term deposits. Real estates, plant, equipment and investment property totalled BAM 209,798 and comprised 13.2% of fixed assets, while intangible assets totalled BAM 26,736 and their share in fixed assets was 1.7%.

The amount of current assets was BAM 2,524,678, and they were comprised of short-term receivables, investments and cash, within which the share of cash was 70.1% and the share of term deposits was 27.7%, while the total share of the other items was 2.2%.

In the structure of operating liabilities, the share of capital was 99.1% and the share of liabilities was 0.9%.

The amount of capital was BAM 4,073,682, which was lower than the amount of share capital by the amount of loss up to the amount of capital (BAM 326,033) and unrealised loss on financial assets available for sale (BAM 285).

The amount of obligations was only BAM 37,530 and they referred to short-term obligations, including business obligations in the amount of BAM 10,875, obligations for wages and employee benefits in the amount of BAM 24,946, and other short-term obligations which totalled BAM 1,709.

The table below shows a shortened overview of the income statement of the company for voluntary pension fund management for 2017.

**Table 27: Income statement of the company for voluntary pension fund management**

(in BAM)

ITEM	2017.
A. OPERATING INCOME AND EXPENSES	
I - Operating income	51
II - Operating expenses	349,531
B. OPERATING PROFIT	0
C. OPERATING LOSS	349,480
D. FINANCIAL INCOME AND EXPENSES	
I - Financial income	23,662
II - Financial expenses	215
E. PROFIT FROM REGULAR OPERATION	0
F. LOSS FROM REGULAR OPERATION	326,033

ITEM	2017.
G. OTHER INCOME AND EXPENSES	
I - Other income	0
II - Other expenses	0
H. PROFIT FROM OTHER INCOME AND EXPENSES	0
I. LOSS FROM OTHER INCOME AND EXPENSES	0
J. NET PROFIT AND NET LOSS IN THE REPORTING PERIOD	
K - Net profit in the reporting period	0
II - Net loss in the reporting period	326,033
TOTAL INCOME	23,713
TOTAL EXPENSES	349,746

*Source: Financial statements of the company for voluntary pension fund management*

The total income in 2017 was BAM 23,713, within which the share of financial income from interest was 99.5%.

The total expenses were BAM 349,746, within which the share of operating expenses was 99.9%. The amount of operating expenses comprised wages, employee benefits and other personal expenses in the amount of BAM 168,771 (48.3% of operating expenses), intangible expenses in the amount of BAM 101,156 (29.1% of operating expenses), and depreciation, production services and taxes and contributions in the total amount of BAM 79,604 (22.6% of operating expenses). The net result in the reporting period was a loss in the amount of BAM 326,033.

### 3.1.2. Voluntary pension fund

Within the activity of voluntary pension insurance, the first voluntary pension fund was established. That is the European Voluntary Pension Fund Banja Luka. This fund is managed by the Company for the Management of the European Voluntary Pension Fund JSC Banja Luka.

This fund was organised as an open voluntary pension fund, for the purpose of collecting funds by way of voluntary payment of the pension contribution by the payers, and investing the funds with a view to increase the value of the assets, and it does not have the capacity of a legal person.

The first payment to the voluntary pension fund was made on 30 November 2017, and a total of 16 members paid their contribution by the end of the reporting period. The net value of the assets of the voluntary pension fund as at 31 December 2017 was BAM 2,452. The number of shares issued was 253.5327721, and the net value per share was BAM 9.67256.<sup>10</sup>

<sup>10</sup> The value of the unit of account of the fund at the day of valuation is determined by dividing the value of the net assets of the fund by the total number of units of account. The total number of units of account of the fund, at the day of valuation, is calculated by increasing the number of units of account from the last day for which the value of the unit of account of the fund was calculated by the number of units of account obtained by recording the units of account in the individual accounts of the members of the fund on the basis of received payments, and decreasing it by the number of units of account obtained by termination of membership at the day of valuation.