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REPORT
on the state of the insurance sector in the Republic of Srpska
for the period from 1 January 2018 to 31 December 2018

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INTRODUCTORY WORD

Report on the state of the insurance sector in the Republic of Srpska for 2018 contains information about the state of voluntary pension insurance field and is prepared based on financial statements, auditor's, actuarial and other reports which participants in the insurance market and voluntary pension insurance deliver to the Insurance Agency of the Republic of Srpska according to regulations.

Number of insurance companies in the insurance market of the Republic of Srpska is continuously increasing and on 31 December 2018 there were 27 insurance companies in the insurance market including 15 insurance companies whose headquarters (HQ) is in the Republic of Srpska and 12 insurance companies whose headquarters is in the Federation of Bosnia and Herzegovina. Herfindahl-Hirschman Index and the fact that the individual participation of insurance companies in the written insurance premium is less than 10% indicate 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 226.1 million, representing an increase of 6 % in comparison with the previous year. The non-life insurance premium increased by 8.4 %, and the life insurance premium increased by 5.5 %. 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. 24.7 % of the total premium written in the market of the Republic of Srpska was written through agents and brokers.

The premium written by the insurance companies with HQ in the Republic of Srpska increased by 3.4 %, including the premium from the FBiH market. The premium of the compulsory motor third party liability insurance (MTPL insurance) totalled 65.2 % in the written insurance premium. Furthermore, the total net result in the accounting period is a profit in the amount of BAM 28.8 million, which resulted in the rate of return on equity of 19.8 %. The total technical result was also positive, and it totalled BAM 107.9 million. The total balance sum increased by 9.2 %, and the total balance capital increased by 10.4 %, totalling BAM 152.7 million. The total calculated technical reserves increased by 9.3 %. Pursuant to insurance contracts, insured persons and beneficiaries were reimbursed BAM 72.9 million or 14.5 % more in comparison to the last year. Combined ratio was lower than 100, representing a positive result in insurance activities as well as the fact that the premium could cover the liabilities arising from the insurance contracts. All insurance companies from the Republic of Srpska complied with the capital adequacy requirements.

From all the above mentioned it is apparent that the insurance companies from the Republic of Srpska had adequate financial capacity to cover the liabilities arising from the insurance contracts and that the profitability was at a satisfactory level, but it is also apparent that, regardless of the fact that the insurance premium increased, there is a potential and need for further growth of insurance market/premium in non-compulsory insurance.

Activities referring to voluntary pension insurance were conducted by a company for management of voluntary pension fund. After it obtained licences for organisation and management of voluntary pension fund, the said company started their market business operations during the third trimester of 2017. As of 31 December 2018, the total number of active members of voluntary pension fund was 991. As of 31 December 2018, net asset value of the voluntary pension fund was BAM 299.717. There were 29.864,1612602 issued shares and net value per share was BAM 10.03600. Presented indicators of business operations are in accordance with the level of business activities and the fact that beginning of business operations of company for management of voluntary pension fund was in the end of the last year.

Director,
Slaven Dujaković

Banja Luka, June 2019

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. In addition to 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 regulating the insurance sector are also available on the website of the Agency (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

In 2018 a total of 15 insurance companies with HQ in the Republic of Srpska operated in the insurance market of the Republic of Srpska, and they are presented in the table below, by insurance activity, seat and ownership structure as at 31 December 2018.

Table 1: Insurance companies from RS

No	Name of the insurance company	HQ	Majority ownership
NON-LIFE INSURANCE			
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.	Premium osiguranje A.D. ¹	Banja Luka	domestic
11.	SAS-SuperP OSIGURANJE A.D.	Bijeljina	domestic
12.	Triglav osiguranje A.D.	Banja Luka	foreign
LIFE AND NON-LIFE INSURANCE (COMPOSITE COMPANIES)			
13.	Grawe osiguranje A.D.	Banja Luka	foreign
14.	Dunav osiguranje A.D.	Banja Luka	foreign
15.	Wiener osiguranje A.D.	Banja Luka	foreign

Source: Central Securities Registry

Of the 15 insurance companies with HQ in the Republic of Srpska, 12 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 12² branch offices of the insurance companies from FBiH operated in the insurance market of the Republic of Srpska in 2018, while 8 insurance companies from the Republic of Srpska operated in FBiH through their branch offices.

¹ Premium Invest osiguranje A.D Banja Luka changed their name to Premium osiguranje A.D. Banja Luka while this report was being made

² While this report was being made, there was an ongoing procedure of removal of a branch office of an insurance company from FBiH from the Register of Agency because of merging of insurance companies in FBiH

Ownership structure

By ownership structure, as at 31 December 2018, a total of 9 insurance companies had majority domestic ownership, while 6 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	55.0 %	38.3 %	50.2 %
Majority foreign ownership	6	45.0 %	61.7 %	49.8 %
TOTAL	15	100 %	100 %	100 %

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 45.0 %. A total of 61.7 % of the total assets and 49.8 % 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 2018, a total of 1,531 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 2016-2018, 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 2016		As at 31 December 2017		As at 31 December 2018		INDEX 2018/17
	number	%	number	%	number	%	
unskilled	8	0.6	8	0.6	9	0.6	112.5
semi-skilled	2	0.1	2	0.1	1	0.1	50.0
primary education	0	0.0	0	0.0	0	0.0	
skilled	68	4.9	67	4.6	65	4.2	97.0
secondary education	709	50.9	726	50.2	778	50.8	107.2
highly-skilled	7	0.5	8	0.6	7	0.5	87.5
two-year college degree	82	5.9	84	5.8	74	4.8	88.1
university degree	489	35.1	522	36.1	569	37.2	109.0
MA	28	2.0	27	1.9	26	1.7	96.3
PhD	1	0.1	2	0.1	2	0.1	100.0
TOTAL	1,394	100.0	1,446	100.0	1,531	100.0	105.9

Source: Reports of the insurance companies from RS

In addition to that, a total of 267 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 1,805 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 brokers³

As at 31 December 2018, the Register of insurance agents and brokers kept by the Agency lists a total of:

- 300 insurance agents – natural persons, of which a total of 32 persons registered businesses as entrepreneurs,
- 16 insurance agency companies with HQ in the Republic of Srpska (including Pošte Srpske, a microcredit companies and banks) and 4 branch offices of the agency companies from FBiH,
- 35 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).

In 2018, the Agency organised educations and held one accustomed and two unaccustomed exams for the professional knowledge verification required for obtaining the authorisation to pursue the activity of insurance agency and brokerage. A total of 172 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”, 102/9). 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.

³ 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).

The total income generated by the Protection Fund in 2018 was BAM 3,771,288, representing a decrease 1.8 % in comparison with the previous year, of which 94% referred to operating income. The total expenses were BAM 3,676,134 which was an increase of 14.6 % in comparison with the previous year, of which 68% referred to operating expenses, while 32 % referred to adjustment of receivables based on recourse. In 2018, the Protection Fund had excess of income over expenses in the amount of BAM 95,154.

The table below gives an overview of the settlement and payment of claims in the period 2016-2018, 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 2016	31 Dec 2017	31 Dec 2018	Index 2018/2017
1. Reported claims in the current period and reactivated	512	435	425	97.7
2. Transferred from the previous period	166	176	143	81.3
3. Total number of claims (1+2)	678	611	568	93.0
4. Claims rejected	87	106	87	82.1
5. Claims processed, less the rejected ones	414	362	332	91.7
6. Number of claims paid	414	362	332	91.7
7. Amount of claims paid (BAM)	1,347,159	1,104,258	1,604,015	145,3

Source: Report of the Protection Fund

In comparison with the previous year, the total number of claims decreased by 7.0 %. All processed claims were paid. The amount of claims paid was greater in 2018 by 45.3% in comparison with the previous year. The average value of a claim paid in 2018 was BAM 4,831 representing an increase of 58.4% in comparison with 2017.

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 2018, a total of 38 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).

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)⁴

Country		Premium/population			Premium/GDP (%)			Life insurance / total premium (%)		
		2015	2016	2017	2015	2016	2017	2015	2016	2017
BiH	RS	73.2	96.7	113.0	2.0	2.2	2.2	16.7	16.5	16.7
	FBiH	103.2	114.5	123.0	2.3	2.3	2.3	24.8	24.3	22.2
Austria		2,261.0	2,177.0	2,217.0	5.2	4.8	4.6	38.7	35.8	34.0
Bulgaria		149.0	160.0	175.0	2.2	2.2	2.2	17.8	18.4	17.1
Greece		382.0	398.0	411.0	2.2	2.2	2.2	45.9	45.8	44.9
Hungary		303.0	317.0	348.0	2.4	2.6	2.5	53.7	49.8	49.0
Romania		107.0	111.0	125.0	1.3	1.2	1.3	20.1	19.1	21.1
Slovenia		1,058.0	1,084.0	1,184.0	5.0	5.0	5.0	28.7	28.4	30.1
Serbia		105.0	115.0	123.0	2.0	2.1	2.1	22.4	24.7	23.0
Turkey		141.0	165.0	149.0	1.6	1.6	1.4	12.2	12.5	15.4
Croatia		229.0	307.0	333.0	2.6	2.6	2.5	33.9	33.3	32.4
Czech Republic		592.0	592.0	609.0	3.2	3.1	2.9	40.7	37.7	38.0

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 Srpska⁵, in the period from 2016 to 2018.

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 2018/2017
		2016		2017		2018		
		Amount	%	Amount	%	Amount	%	
1.	INSURANCE COMPANIES FROM RS	155,728,378	78.6	169,595,254	79.5	173,808,910	76.9	102.5
1.1.	Non-life insurance	137,049,768	69.2	149,588,494	70.1	153,902,365	68.1	102.9
1.2.	Life insurance	18,678,610	9.4	20,006,759	9.4	19,906,545	8.8	99.5
2.	BRANCH OFFICES OF THE COMPANIES FROM FBiH	42,419,590	21.4	43,694,839	20.5	52,290,663	23.1	119.7
2.1.	Non-life insurance	28,419,093	14.3	28,842,603	13.5	34,404,235	15.2	119.3
2.2.	Life insurance	14,000,498	7.1	14,852,236	7.0	17,886,428	7.9	120.4
TOTAL		198,147,968	198,147,968	213,290,093	100.0	226,099,573	100.0	106.0

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

The table below shows the structure of the premium written at the insurance market of the Republic of Srpska, by type of insurance, in the period 2016-2018

⁴At the time of creation of this report, the comparative statistics for 2018 were not available

⁵The 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.

Table 7: Premium written in the Republic of Srpska insurance market, by type of insurance

Type of insurance	2016		2017		2018		Index 2018/17
	Amount	%	Amount	%	Amount	%	
Accident insurance	13,306,070	6.7	15,294,995	7.2	17,064,906	7.5	111.6
Land vehicle insurance (except for railway vehicles)	12,529,660	6.3	13,970,174	6.5	16,002,649	7.1	114.5
Insurance of property against fire and natural forces	7,287,587	3.7	8,829,626	4.1	7,956,702	3.5	90.1
Insurance against other types of property damage	9,685,946	4.9	8,881,216	4.2	9,287,776	4.1	104.6
Motor vehicle liability insurance	118,570,018	59.8	126,501,694	59.3	131,827,203	58.3	104.2
Other	4,089,581	2.1	4,953,393	2.3	6,167,364	2.7	124.5
Total non-life insurance	165,468,860	83.5	178,431,098	83.7	188,306,600	83.3	105.5
Life insurance	32,679,108	16.5	34,858,995	16.3	37,792,973	16.7	108.4
Total	198,147,968	100.0	213,290,093	100.0	226,099,573	100.0	106.0

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

The total premium written in the insurance market of the Republic of Srpska in the period from 1 January to 31 December 2018 was BAM 226,099,573 which is higher by BAM 12,809,480 or 6.0 % in comparison with the same period of the previous year.

Out of the total premium written in the insurance market of the Republic of Srpska in 2018, BAM 188,306,600 or 83.3% referred to the non-life insurance premium and BAM 37,792,973 or 16.7% referred to the total life insurance premium written. Non-life insurance premium Written increased by 5.5 % and life insurance premium written increased by 8.4% in comparison to the previous year.

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 2016 to 2018.

Table 8: 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	2016	2017	2018
1.	Atos osiguranje A.D.	6.3 %	7.6 %	7.4 %
2.	D.D. Brčko gas osiguranje	5.1 %	5.1 %	4.7 %
3.	Grawe osiguranje A.D.	8.1 %	7.8 %	7.7 %
4.	Drina osiguranje A.D.	9.9 %	9.7 %	9.2 %
5.	Dunav osiguranje A.D.	8.9 %	8.4 %	7.8 %
6.	Euros osiguranje A.D.	2.9 %	3.7 %	3.9 %
7.	Wiener osiguranje A.D.	10.0 %	9.6 %	8.0 %
8.	Krajina osiguranje A.D.	2.1 %	1.4 %	1.2 %
9.	Mikrofin osiguranje A.D.	3.3 %	3.2 %	3.4 %

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	2016	2017	2018
10.	Nešković osiguranje A.D.	8.2 %	8.0 %	7.2 %
11.	Osiguranje Aura A.D.	4.4 %	4.7 %	
12.	Osiguranje Garant A.D.	3.8 %	3.9 %	
13.	Premium osiguranje A.D.			
14.	SAS-SuperP osiguranje A.D.	0.5 %	1.4 %	1.7 %
15.	Triglav osiguranje A.D.	5.0 %	4.9 %	4.8 %
16.	Asa osiguranje D.D.	1.7 %	1.9 %	2.4 %
17.	Bosna-Sunce osiguranje D.D.	1.0 %	0.6 %	2.8 %
18.	Camelija osiguranje D.D.	0.4 %	0.3 %	0.3 %
19.	Central osiguranje D.D.			1.3 %
20.	Croatia osiguranje D.D.	1.0 %	0.8 %	1.2 %
21.	Grawe osiguranje D.D. ⁶	-	-	0.0 %
22.	Euroherc osiguranje D.D.	3.0 %	3.0 %	3.4 %
23.	SARAJEVO osiguranje	2.1 %	2.2 %	1.5 %
24.	Vienna osiguranje D.D.	3.7 %	3.6 %	3.7 %
25.	Osiguranje VGT D.D. ⁷	0.4 %	0.3 %	0.0 %
26.	UNIQA osiguranje D.D.	5.6 %	5.1 %	5.9 %
27.	Zovko osiguranje D.D. ⁸	2.3 %	2.3 %	-
28.	Triglav osiguranje D.D.	0.3 %	0.4 %	0.5 %
	TOTAL	100.0 %	100.0 %	100.0 %

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 when it comes to the number of insurance companies per peer groups and that there was no insurance company whose share in the total premium written was greater than 10%.

⁶ During this reporting period insurance company "VGT" D.D. Visoko was merged with the insurance company Grawe osiguranje D.D. Sarajevo in FBiH. According to the operating period related to the activities referring to insurance in the Republic of Srpska the market share of Grawe osiguranje D.D. Sarajevo was 0.0305 % (BAM 68.992)

⁷ During this reporting period insurance company "VGT" D.D. Visoko was merged with the insurance company Grawe osiguranje D.D. Sarajevo in FBiH. According to the operating period related to the activities referring to insurance in the Republic of Srpska the market share of "VGT" D.D. was 0.0307 % (BAM 69,420)

⁸ During this reporting period, branch office of insurance company "Zovko osiguranje" d.d. Žepče did not write their premium because they were merged with another insurance company in FBiH but on the day when this report was made the procedure of removing them from the Register of Agency was not completed yet.

Table 9: 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					
	2016		2017		2018	
	Total share	Number of insurance companies	Total share	Number of insurance companies	Total share	Number of insurance companies
up to 5 %	37.8 %	17	38.6 %	17	41.3 %	19
5-10 %	62.2 %	8	61.4 %	8	58.7 %	8
10-15 %	0.0 %	0	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. If the market is a monopoly, the concentration of the market is higher and the competition is lower. 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 2018 was 578 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 2018 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 214,989,388 (of which BAM 41,180,478 in FBiH, and BAM 173,808,910 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 7,101,410 or 3.4 %.

The table below shows an overview of the premium written by insurance company with HQ in the Republic of Srpska, in the period 2016-2018.

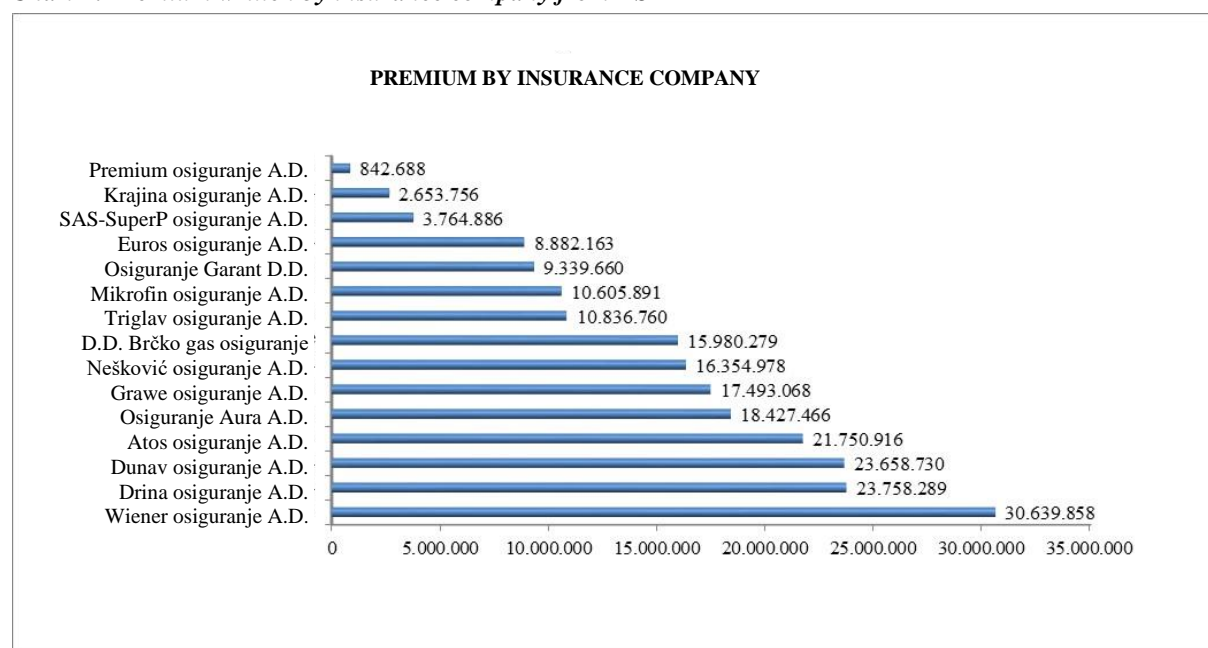
Table 10: Premium written by insurance companies from RS

(in BAM)

No	NAME OF THE COMPANY IN RS	Premium written						Index 2018/2017
		2016		2017		2018		
		Amount	%	Amount	%	Amount	%	
NON-LIFE INSURANCE								
1.	Atos osiguranje A.D.	13,396,154	7.1	19,227,270	9.2	21,750,916	10.1	113.1
2.	D.D. Brčko gas osiguranje	15,265,874	8.1	16,317,864	7.8	15,980,279	7.4	97.9
3.	Grawe osiguranje A.D.	16,954	0.0	14,894	0.0	16,463	0.0	110.5
4.	Drina osiguranje A.D.	24,413,426	13.0	24,225,262	11.7	23,758,289	11.1	98.1
5.	Dunav osiguranje A.D.	20,696,765	11.0	22,301,711	10.7	22,947,124	10.7	102.9
6.	Euros osiguranje A.D.	5,805,365	3.1	7,815,227	3.8	8,882,163	4.1	113.7
7.	Wiener osiguranje A.D.	27,301,980	14.6	29,345,957	14.1	27,063,163	12.6	92.2
8.	Krajina osiguranje A.D.	4,159,511	2.2	2,954,034	1.4	2,653,756	1.2	89.8
9.	Mikrofin osiguranje A.D.	8,665,103	4.6	9,103,123	4.4	10,605,891	4.9	116.5
10.	Nešković osiguranje A.D.	16,262,333	8.7	17,152,600	8.3	16,354,978	7.6	95.3
11.	Osiguranje Aura A.D.	12,134,006	6.5	14,492,718	7.0	18,427,466	8.6	127.1
12.	Osiguranje Garant D.D.	7,490,302	4.0	8,248,338	4.0	9,339,660	4.3	113.2
13.	Premium osiguranje A.D.					842,688	0.4	
14.	SAS-SuperP osiguranje A.D.	1,806,548	0.6	3,034,941	1.5	3,764,886	1.8	124.1
15.	Triglav osiguranje A.D.	9,833,350	5.2	10,451,752	5.0	10,836,760	5.0	103.7
	TOTAL NON-LIFE INSURANCE	166,527,671	88.9	184,685,962	88.8	193,224,482	89.9	104.6
LIFE INSURANCE								
1.	Grawe osiguranje A.D.	15,970,100	8.5	16,645,373	8.0	17,476,605	8.1	105.0
2.	Dunav osiguranje A.D.	714,749	0.4	712,044	0.3	711,606	0.3	99.9
3.	Wiener osiguranje A.D.	4,180,965	2.2	5,844,867	2.8	3,576,695	1.7	61.2
	TOTAL LIFE INSURANCE	20,865,814	11.1	23,202,285	11.2	21,764,906	10.1	93.8
	TOTAL PREMIUM	187,393,485	100.0	207,887,978	100.0	214,989,388	100.0	103.4

Source: Reports of the insurance companies from RS

Chart 1: Premium written by insurance company from RS



Source: Reports of the insurance companies from RS

In 2018, in comparison with the previous year, five insurance companies with HQ in the Republic of Srpska generated a lower non-life insurance premium in comparison to the previous year. Two insurance companies generated a lower life insurance premium, whereby the decrease in the premium was significant with only one insurance company due to the circumstances related to the expiry of life insurance contracts and by the decision of this insurance company to stop concluding new life insurance contracts.

The table below shows an overview of the premium of the insurance companies from the Republic of Srpska written in FBiH.

Table 11: Premium written by insurance companies from RS in FBiH

(in BAM)

No.	NAME OF THE COMPANY	Premium written						INDEX 2018/17
		2016.		2017.		2018.		
		Amount	%	Amount	%	Amount	%	
NON-LIFE INSURANCE								
1.	Atos osiguranje A.D.	891.938	2,8	2.931.213	7,7	4.958.321	12,0	169,2
2.	D.D. Brčko-gas osiguranje	5.102.030	16,1	5.395.703	14,1	5.281.631	12,8	97,9
3.	Drina osiguranje A.D.	4.707.950	14,9	3.552.025	9,3	3.063.822	7,4	86,3
4.	Dunav osiguranje A.D.	3.681.365	11,6	5.013.847	13,1	6.022.325	14,6	120,1
5.	Wiener osiguranje A.D.	9.507.808	30,0	11.436.038	29,9	10.655.008	25,9	93,2
6.	Mikrofin osiguranje A.D.	2.148.673	6,8	2.353.844	6,1	2.997.047	7,3	127,3
7.	Osiguranje Aura A.D.	3.438.137	10,9	4.414.530	11,5	6.214.013	15,1	140,8
8.	Premium osiguranje A.D.					129.950	0,3	
	TOTAL NON-LIFE INSURANCE	29.477.903	93,1	35.097.198	91,7	39.322.117	95,5	112,0
LIFE INSURANCE								
1.	Dunav osiguranje A.D.	0,0		0,0		0,0		
2.	Wiener osiguranje A.D.	2.187.204	6,9	3.195.526	8,3	1.858.361	4,5	58,2
	TOTAL LIFE INSURANCE	2.187.204	6,9	3.195.526	8,3	1.858.361	4,5	58,2
	TOTAL:	31.665.107	100,0	38.292.724	100,0	41.180.478	100,0	107,5

Source: Reports of the insurance companies from RS

Eight insurance companies with HQ in the Republic of Srpska conducted insurance activities via branch office in FBiH. Those insurance companies wrote premium in FBiH in the amount of 41,180,478 which was greater by 7.5% in comparison to the previous year and amounted to 19.2% of the total premium of insurance companies with HQ in the Republic of Srpska. Non-life insurance premium was dominant in this structure representing 95.5% of the structure.

Branch offices of insurance companies from FBiH also have a share in the premium written in the insurance market of the Republic of Srpska in the amount of BAM 52,290,663 representing 23.1% of total written premium.

The following table represents overview of premium written in the insurance market in the Republic of Srpska by branch offices from FBiH for the period from 2016 to 2018.

Table 12: 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
		2016		2017		2018		
		Amount	%	Amount	%	Amount	%	
NON-LIFE INSURANCE								
1.	Asa osiguranje d.d.	3,329,131	7.8	4,093,834	9.4	5,506,4777	10.5	134.5
2.	Adriatic osiguranje d.d.	1,925,659	4.5	1,223,561	2.8	6.344.290	12,1	518,5
3.	Camelija osiguranje d.d.	701,618	1.7	684,028	1.6	760.119	1,5	111,1
4.	Central osiguranje D.D.					2.901.528	5,5	
5.	Croatia osiguranje d.d.	1,814,208	4.3	1,680,306	3.8	2.593.424	5,0	154,3
6.	Grawe osiguranje D.D.					68.992	0,1	
7.	Euroherc osiguranje d.d.	5,857,642	13.8	6,434,968	14.7	7.601.818	14,5	118,1
8.	SARAJEVO osiguranje	4,182,596	9.9	4,627,264	10.6	3.357.765	6,4	72,6
9.	Vienna osiguranje D.D.	261,350	0.6	272,983	0.6	208.780	0,4	76,5
10.	Osiguranje VGT d.d.	818,691	1.9	562,607	1.3	69.420	0,1	12,3
11.	UNIQA osiguranje d.d.	5,037,833	11.9	4,426,584	10.1	4.991.623	9,5	112,8
12.	Zovko osiguranje d.d.	4,490,365	10.6	4,836,468	11.1	-		
	TOTAL NON-LIFE INSURANCE	28,419,093	67.0	28,842,603	66.0	34.404.235	65,8	119,3
LIFE INSURANCE								
1.	Adriatic osiguranje d.d.	122.154	0,3	138.442	0,3	85.227	0,2	61,6
2.	Croatia osiguranje d.d.	137.721	0,3	125.904	0,3	139.633	0,3	110,9
3.	Vienna osiguranje D.D.	7.049.493	16,6	7.426.388	17,0	8.050.420	15,4	108,4
4.	UNIQA osiguranje d.d.	6.129.961	14,5	6.345.062	14,5	8.437.376	16,1	133,0
5.	Triglav osiguranje d.d.	561.168	1,3	816.439	1,9	1.173.771	2,2	143,8
	TOTAL LIFE INSURANCE	14.000.497	33,0	14.852.236	34,0	17.886.428	34,2	120,4
	TOTAL PREMIUM	42.419.590	100,0	43.694.839	100,0	52.290.663	100,0	119,7

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 2016-2018, 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 13: Total premium written by the insurance companies from RS, by type of insurance (in BAM)

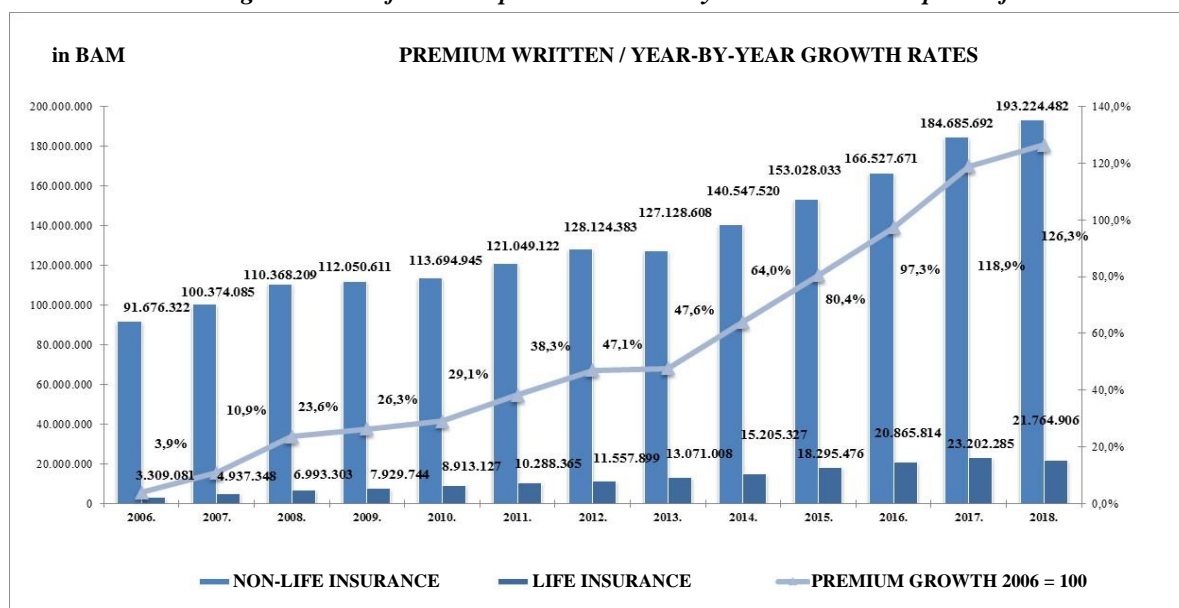
Type of insurance	2015		2016		2017		Index 2017/16
	Amount	%	Amount	%	Amount	%	
Accident insurance	11.797.295	6,3	14.077.115	6,8	15.477.438	7,2	109,9
Land vehicle insurance (except for railway vehicles)	10.077.750	5,4	11.406.878	5,5	12.418.952	5,8	108,9
Insurance of property against fire and natural forces	6.320.524	3,4	8.075.645	3,9	6.823.476	3,2	84,5
Insurance against other types of property damage	11.601.584	6,2	10.880.502	5,2	11.484.398	5,3	105,6
Motor vehicle liability insurance	122.546.888	65,4	134.794.492	64,8	140.755.050	65,5	104,4
Other	4.183.629	2,2	5.451.061	2,6	6.265.168	2,9	114,9
Total non-life insurance	166.527.671	88,9	184.685.692	88,8	193.224.482	89,9	104,6
Life insurance	20.865.814	11,1	23.202.285	11,2	21.764.906	10,1	93,8
Total	187.393.485	100,0	207.887.978	100,0	214.989.388	100,0	103,4

Source: Reports of the insurance companies from RS

Of the total premium written in 2018, a total of BAM 193.224.482 or 89.9 % referred to the non-life insurance premium, while the life insurance premium written totalled BAM 21.764.906 or 10.1 %. In comparison with the previous year, the non-life insurance premium written increased by 4.6%, while the life insurance premium decreased by 6.2 %. 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 6526 %, while its share in the total non-life insurance premium written was 72.5 %.

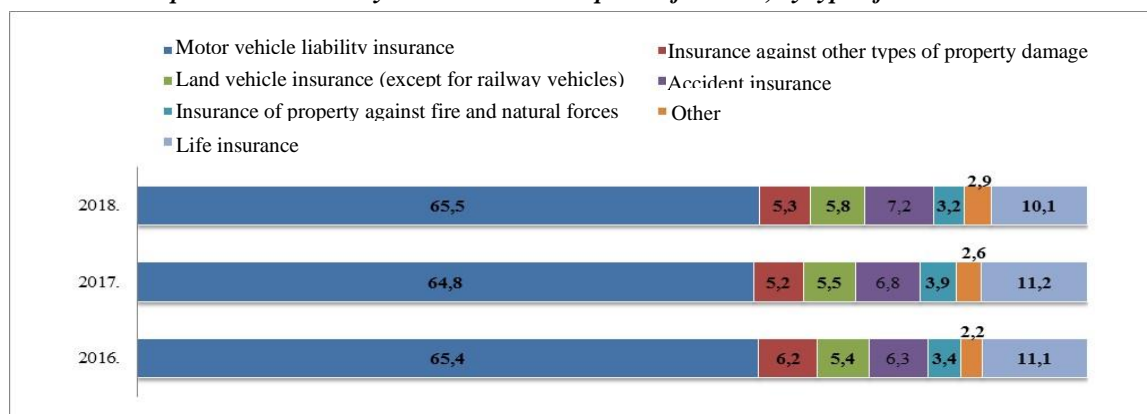
A series of charts illustrating the premiums written by the insurance companies with HQ in the Republic of Srpska are given below.

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

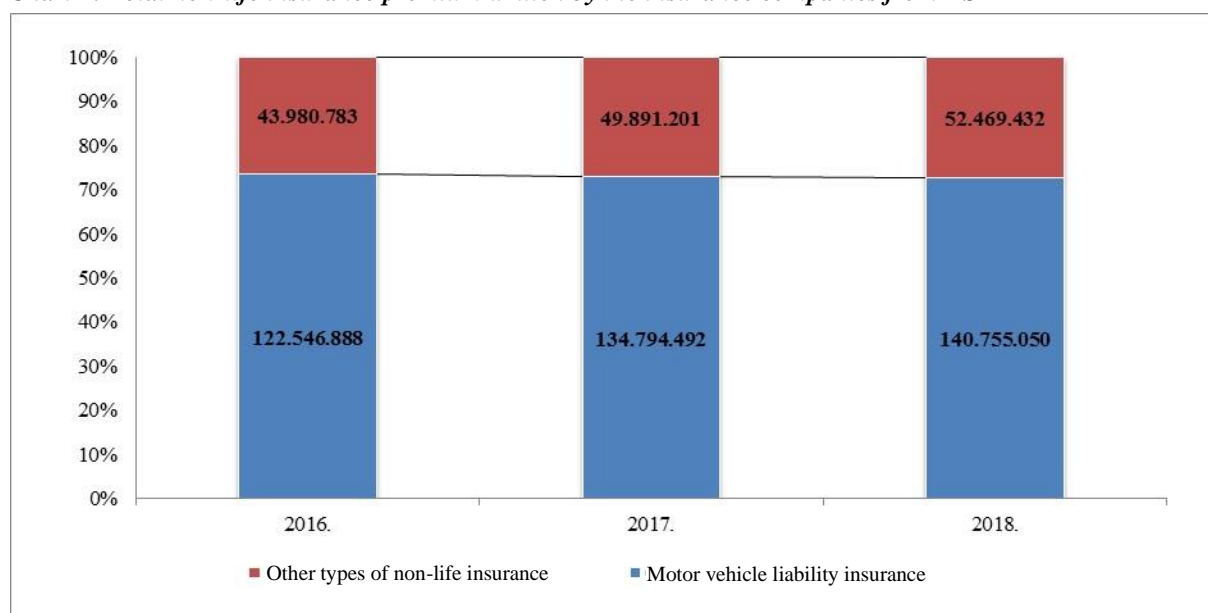


Source: Reports of the insurance companies from RS

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 14: Premium written through insurance agents and brokers in the market of the Republic of Srpska

(in BAM)

No	Entities in the market	2017.				2018.			
		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
1.	INSURANCE COMPANIES FROM RS	29.236.084	17,2%	7.333.731	4,3%	28.183.607	16,2%	6.416.005	3,7%
1.1.	Non-life insurance	13.029.980	8,7%	7.303.711	4,9%	11.437.088	7,4%	6.366.860	4,1%
1.2.	Life insurance	16.206.104	81,0%	30.020	0,2%	16.746.519	84,1%	49.145	0,2%
2.	BRANCH OFFICES OF THE COMPANIES FROM FBiH	16.057.053	36,7%	1.247.019	2,9%	20.358.342	38,9%	893.268	1,7%
2.1.	Non-life insurance	4.594.718	15,9%	1.238.419	4,3%	7.171.950	20,8%	882.133	2,6%
2.2.	Life insurance	11.462.335	77,2%	8.600	0,1%	13.186.392	73,7%	11.135	0,1%
	TOTAL	45.293.137	21,2%	8.580.750	4,0%	48.541.949	21,5%	7.309.273	3,2%

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

In 2018, the premium in the insurance market of the Republic of Srpska written through insurance agents and brokers totalled BAM 55,851,222 or 24.7 % of the total premium written and is greater by 3.7% in comparison to the previous year.

The non-life insurance premium written through insurance agents and brokers totalled BAM 25.858.031 or 13.7 % of the total non-life insurance premium written and has decreased by 1.2% in comparison to the previous year. Through insurance agents and brokers, the life insurance premium totalled BAM 29.993.191 or 79.4 % of the total life insurance premium written representing the increase of life insurance premium written via these sales channels by 8.3%.

Premium written through insurance agents in the market of the Republic of Srpska was BAM 48.541.949 or 21,5 % of the total premium and premium written through insurance brokers was BAM 7.309.273 or 3.2% of the total premium.

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 15: 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.				2018.			
	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	3.890.693	27,6%	3.502.248	24,9%	4.407.512	28,5%	3.843.305	24,8%
Land vehicle insurance (except for railway vehicles)	1.060.065	9,3%	640.055	5,6%	1.085.544	8,7%	578.582	4,7%
Insurance of property against fire and natural forces	626.666	7,8%	1.750.553	21,7%	431.094	6,3%	979.585	14,4%
Insurance against other types of property damage	266.897	2,5%	1.390.812	12,8%	228.046	2,0%	1.295.211	11,3%
Motor vehicle liability insurance	14.833.749	11,0%	922.570	0,7%	13.776.893	9,8%	192.117	0,1%
Other	1.017.682	18,7%	799.376	14,7%	865.726	16,9%	973.469	15,6%
Total non-life insurance	21.695.751	11,7%	9.005.613	4,9%	20.794.815	10,8%	7.862.269	4,1%
Total life insurance	17.661.442	76,1%	30.020	0,1%	17.469.058	80,3%	49.145	0,2%
TOTAL	39.357.193	18,9%	9.035.633	4,3%	38.263.873	17,8%	7.911.414	3,7%

Source: Reports of the insurance companies from RS

The greatest share of the premium written through insurance agents (in the total premium written) was recorded in types of life insurance and the greatest share of the premium written through insurance brokers (in the total premium written) was recorded in types of accident insurance and insurance of property against fire and natural forces.

2.1.7.2. Premium of the insurance companies with HQ in the Republic of Srpska written through insurance agents and brokers⁹

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 2018 totalled BAM 46.175.287 or 21.5 % of the total premium written. In comparison with the same period of the previous year, the premium written through these sales channels decreased by BAM 2.217.539 or 4.6 %.

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.

Table 16: 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 %
Total non-life insurance	16,256,532	9.8 %	10,046,928	6.0 %	21,695,751	11.7 %	9,005,613	4.9 %
Total life insurance	17,728,549	85.0 %	23,572	0.1 %	17,661,442	76.1 %	30,020	0.1 %
TOTAL	33,985,081	18.1 %	10,070,500	5.4 %	39,357,193	18.9 %	9,035,633	4.3 %

Source: Reports of the insurance companies from RS

In 2018 the non-life insurance premium written by insurance companies from the Republic of Srpska through insurance agents and brokers totalled BAM 28.657.084 (14.9 % of the total non-life insurance premium) and is lower by 6.7 % in comparison to the previous year. There was BAM 17.518.203 or 80.5% life insurance premium written representing a decrease of life insurance premium written via these sales channels by 1 % in comparison to the previous year.

The premium written by the insurance companies with HQ in the Republic of Srpska through insurance agents totalled BAM 38.263.873 or 17.8% of the total premium and the premium written through insurance brokers totalled BAM 7.911.414, and its share in the total premium written was 3.7 %.

The greatest share of the premium written through insurance agents (in the total premium written) was recorded in types of life insurance and the greatest share of the premium written

⁹ Premium of the insurance companies with HQ in the Republic of Srpska written through insurance agents and brokers includes insurance premium written in the insurance market of the Republic of Srpska and FBiH

through insurance brokers (in the total premium written) was recorded in types of accident insurance and insurance of property against fire and natural forces and insurance against other types of property damage.

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 2018, this chapter gives a comparative overview and an analysis of the main balance items for 2017 and 2018.

2.2.1. Balance sheet

As of 31 December 2018, the value of operating assets and liabilities of insurance companies from the Republic of Srpska was BAM 473.539.559 and it was greater by 9.4 % in comparison to 31 December 2017.

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 2017 and 2018.

Table 17: Assets – total for all insurance companies from RS (in BAM)

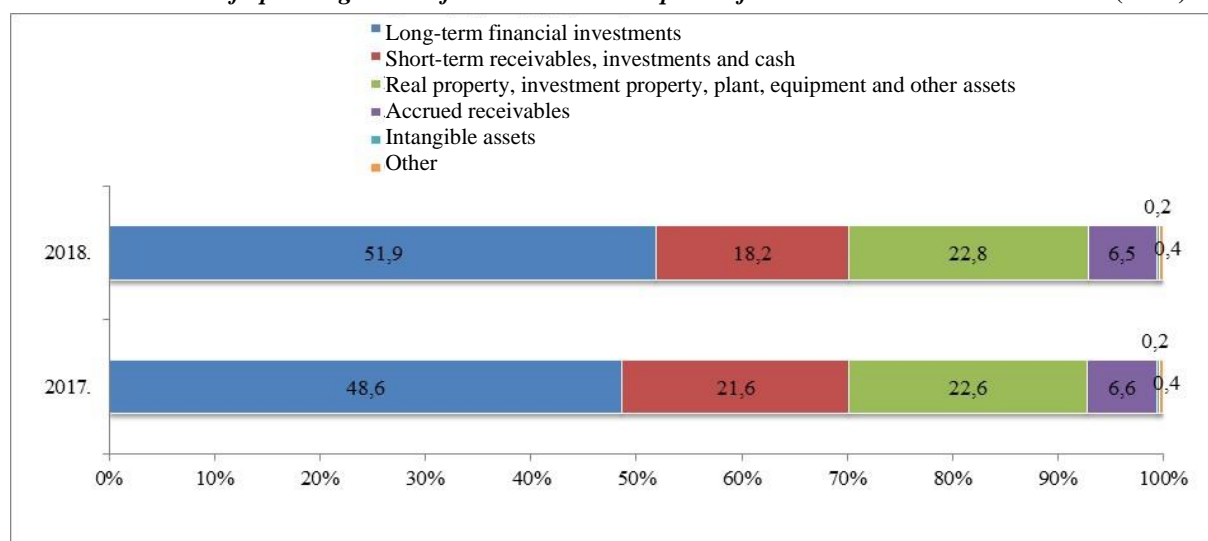
ASSETS	31 December 2017		31 December 2018		Index 2018/17
	Amount	Share	Amount	Share	
A. FIXED ASSETS (I+II+III+IV)	309.274.397	71,5%	354.843.466	74,9%	114,7
I Intangible assets	967.841	0,2%	1.089.558	0,2%	112,6
II Real property, investment property, plant, equipment and other assets (1+2+3)	97.914.408	22,6%	107.941.102	22,8%	110,2
1. Land, buildings, plant and equipment	35.838.957	8,3%	45.806.714	9,7%	127,8
2. Investment property	57.366.423	13,3%	58.104.373	12,3%	101,3
3. Assets in preparation process and other assets	4.709.028	1,1%	4.030.015	0,9%	85,6
III Long-term financial investments (1+2)	210.392.149	48,6%	245.812.806	51,9%	116,8
1. Share in the capital of related, associated and other legal persons	3.311.688	0,8%	3.724.396	0,8%	112,5
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	207.080.461	47,9%	242.088.410	51,1%	116,9
IV Deferred tax funds					
B. CURRENT ASSETS (I+II+III+IV)	123.455.628	28,5%	118.696.093	25,1%	96,1
I Inventories, fixed assets and assets of discontinued operations available for sale	1.315.559	0,3%	1.323.029	0,3%	100,6
II Short-term receivables, investments and cash	93.435.946	21,6%	86.215.918	18,2%	92,3
1. Receivables from premiums, participation in compensation and other customers	12.272.465	2,8%	12.882.165	2,7%	105,0
2. Receivables from specific business operations and other receivables	7.153.478	1,7%	7.074.460	1,5%	98,9
3. Short-term financial investments	52.804.976	12,2%	41.699.207	8,8%	79,0
4. Cash	21.205.027	4,9%	24.560.087	5,2%	115,8
III Accrued receivables	28.663.323	6,6%	30.823.296	6,5%	107,5
IV - Deferred tax funds	40.801	0,0%	333.851	0,1%	818,2
OPERATING ASSETS (A+B)	432.730.026	100,0%	473.539.559	100,0%	109,4
OFF-BALANCE-SHEET ASSETS	4.464.480		3.811.929		85,4
TOTAL ASSETS	437.194.506		477.351.488		109,2

Source: Balance sheets of the insurance companies from RS

The chart below shows the structure of operating assets for 2017 and 2018.

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

(in %)



Source: Balance sheets of the insurance companies from RS

In the structure of operating assets, as at 31 December 2018, the share of fixed assets was 74.9 %, and the share of current assets was 25.1 %, whereby, in comparison with the previous year, the share of fixed assets increased from 71.5 % to 74.9 %, while the share of current assets decreased from 28.5 % to 25.1%.

The amount of fixed assets increased by 14.7%, and within this item, the amount of intangible assets increased by 12.6%, real property, investment property, plant, equipment and other assets increased by 10.2%, and the amount of long-term financial investments increased by 16.8 %. Nominally speaking, the increase of intangible assets by 12.6% is not important because share of this item in operating assets is 0.2%. As for real property, investment property, plant, equipment and other assets, there was an increase in all items except for the items assets in preparation process and other assets which were decreased by 14.4%. In terms of percentage, the highest increase of 27.8% was recorded in the item land, buildings, plant and equipment and is related to the increase of the amount related to items real estate used for operating activities of six insurance companies. When it comes to the increase of the amount of share in the capital of subsidiaries, affiliates and other legal persons in the amount of 12.5%, investment of two insurance companies into subsidiary (microcredit company) had the most important impact. 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 of the investments in financial assets available for sale (bonds).

The amount of current assets decreased by 3.9 %, and within this item, there was a decrease of 7.73 % in short-term receivables, investments and cash. Within the item short-term receivables, investments and cash, there was a decrease of receivables from specific business operations and other receivables by 1.1 % and of short-term financial investments by 21%. Nominally speaking, the decrease of receivables from specific business operations and other receivables is not materially significant and decrease of short-term financial investments is connected with the increase of the amount of long-term financial investments. On the other hand, there was an increase in receivables from premiums, participation in compensation and

other customers by 5,5% and cash by 15,8%. As for the operating assets, share of inventories, fixed assets and assets of discontinued operations available for sale is only 0.3% and the increase of 0.6% corresponds to the nature of insurance activities.

Changes of amounts referring to items of accrued receivables with individual insurance companies resulted in the increase of total amount of this item by 7,5% and the most significant ones occurred due to the increase of share of reinsurers in technical reserves. Deferred tax funds increased significantly but the share of this item in operating assets is only 0.1%.

The amount of off-balance-sheet assets and liabilities decreased by 14.6 % 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 and amounts of real estate mortgages. 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 short overview of the aggregate items of liabilities of all insurance companies for 2017 and 2018.

Table 18: Liabilities – total for all insurance companies from RS (in BAM)

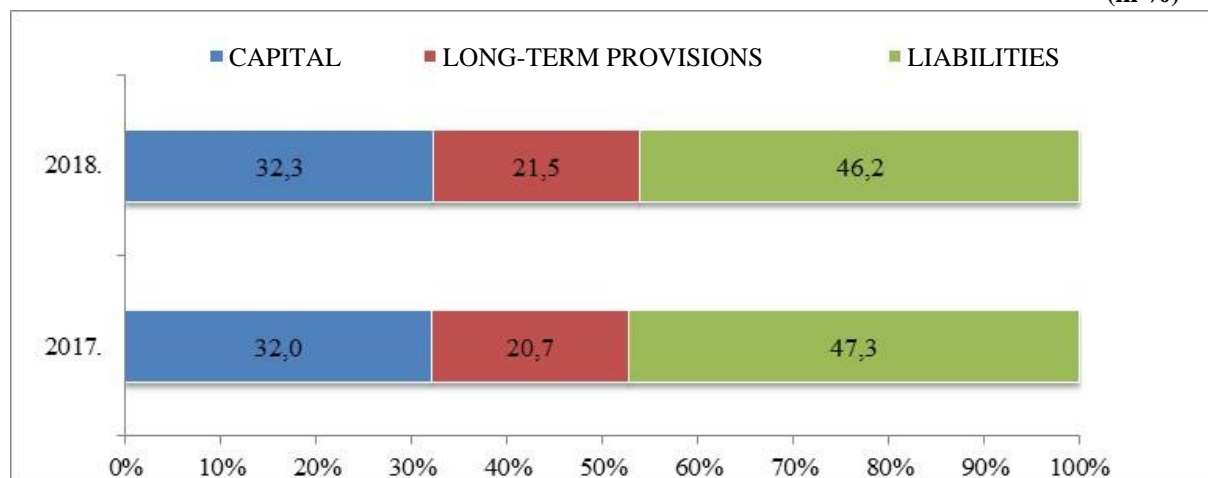
LIABILITIES	31 December 2017		31 December 2018		Index 2018/17
	Amount	Share	Amount	Share	
A. CAPITAL	138.404.046	32,0%	152.741.155	32,3%	110,4
1. Share capital	102.706.392	23,7%	106.820.292	22,6%	104,0
2. Share issuance premium	252.000	0,1%	6.251.900	1,3%	2480,9
3. Share issuance loss	4.045.946	0,9%	4.045.946	0,9%	100,0
4. Reserves from profit	6.141.813	1,4%	6.507.655	1,4%	106,0
5. Revaluation reserves	3.464.988	0,8%	3.089.358	0,7%	89,2
6. Unrealised gains on financial assets available for sale	5.112.822	1,2%	6.002.917	1,3%	117,4
7. Unrealised losses on financial assets available for sale	1.565.489	0,4%	2.310.034	0,5%	147,6
8. Undistributed profit (9+10)	38.127.626	8,8%	43.679.928	9,2%	114,6
9. Undistributed profit from previous years	8.250.669	1,9%	10.997.693	2,3%	133,3
10. Undistributed profit from the current year	29.876.957	6,9%	32.682.235	6,9%	109,4
11. Loss up to the amount of capital (12+13)	11.790.160	2,7%	13.254.915	2,8%	112,4
12. Loss from previous years	9.070.089	2,1%	9.432.585	2,0%	104,0
13. Loss from the current year	2.720.071	0,6%	3.822.330	0,8%	140,5
B. LONG-TERM PROVISIONS	89.654.026	20,7%	101.579.624	21,5%	113,3
C. OBLIGATIONS (1+2)	204.671.952	47,3%	219.218.780	46,2%	107,1
1. Long-term obligations	35.440	0,0%	2.292.846	0,5%	6469,7
2. Short-term obligations and accrued costs and deferred income	204.636.512	47,3%	216.925.934	45,8%	106,0
2.1. Unearned premium – life insurance	5.334.993	1,2%	5.692.266	1,2%	106,7
2.2. Unearned premium – non-life insurance	102.629.970	23,7%	108.575.009	22,9%	105,8
2.3. Outstanding claims reserves – life insurance	798.229	0,2%	912.316	0,2%	114,3
2.4. Outstanding claims reserves – non-life insurance	66.242.517	15,3%	72.900.962	15,4%	110,1
2.5. Other accrued costs and deferred income	4.021.898	0,9%	4.288.880	0,9%	106,6
2.6. Other short-term liabilities	25.608.905	5,9%	24.556.501	5,2%	95,9
D. OPERATING LIABILITIES (A+B+C)	432.730.026	100,0%	473.539.559	100,0%	109,4
E. OFF-BALANCE-SHEET LIABILITIES	4.464.480		3.811.929		85,4
F. TOTAL LIABILITIES	437.194.506		477.351.488		109,2

Source: Balance sheets of the insurance companies from RS

The chart below shows the structure of operating liabilities for 2017 and 2018.

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

(in %)



Source: Balance sheets of the insurance companies from RS

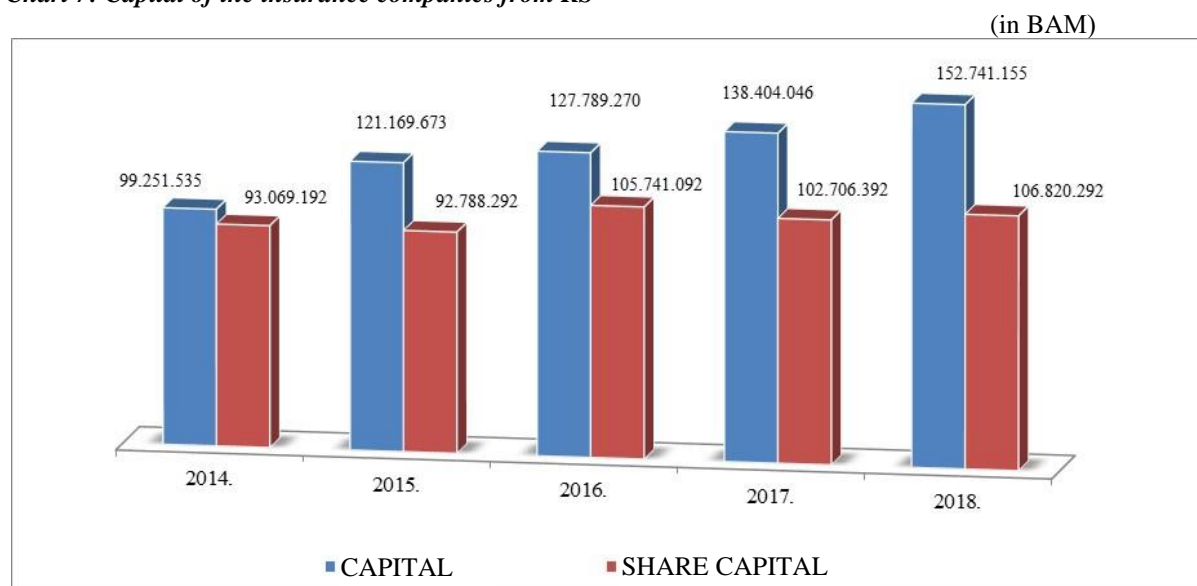
In the structure of operating liabilities, as of 31 December 2018, the share of capital was 32.3%, the share of long-term provisions was 21.5 %, and the share of obligations was 46.2%, whereby technical reserves (unearned premiums and outstanding claims reserves) comprised 85.8 % of the total obligations.

It must be noted that, in the structure of operating liabilities, the share of technical reserves of life and non-life insurance was 39.7%, the share of mathematical reserve and provisions for participation in life insurance profit was 21.1%, and the share of capital was 32.3 %, i.e. the total share of these items in operating liabilities was 93.1%. The share of these items and their interrelationship were in accordance with their core activity and the portfolio structure of the insurance companies.

The item of capital had an increase of 10.4 % in comparison with 31 December 2017, within which there was an increase of share capital (4.0 %), share premium (25 times), reserves from profit (6.0%). The increase of amount referring to the said items is the result of issuance of shares due to the increase of capital of two insurance companies, establishment of a new insurance company and issuance of shares in order to cover loss of two insurance companies. The said amount of capital was affected by the increase of the amount of unrealised gains on financial assets available for sale (17.4%), unrealised losses on financial assets available for sale (47.6%), undistributed profit (14.6%) and loss up to the amount of capital (12.4%). The share of revaluation reserves in operating liabilities is 0.7% so the said decrease of 10.8% did not have a major impact on the amount of capital.

The chart below gives an overview of movement of capital for the period 2014-2018:

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 13.3%. Within this item, there was an increase in mathematical reserve (14.0%), and an increase in provisions for participation in life insurance profit (7.0%), which is in accordance with the age structure of the life insurance portfolio and represents a continuation of a positive trend. The amounts of mathematical reserve and provisions for participation in life insurance profit comprised 98.2 % of long-term provisions.

Total obligations were increased by 7.1% and within that the amount of short-term obligations (65 times) and long-term obligations too including accrued costs and deferred income (6.0%). Increase of long-term obligations were affected by the increase of the amount of obligations on long-term credits with two insurance companies but due to the scarce share in the operating liabilities (0.5%) the said increase of long-term obligations is of no material importance from the aspect of increase of debt in the insurance sector.

Share of written technical reserves is 86.7% in the amount stated within the item short-term obligations and accrued costs and deferred income. Changes of amount of technical reserves i.e. changes of outstanding claims reserves and unearned premium arise from the changes in the amount of premium written and realisation of insured risks. Share of other accrued costs and deferred income in the operating liabilities was 0.9%. Changes in items of other short-term obligations in individual insurance companies resulted in the decrease of total amount of other short-term obligations by 4.1%.

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 2017 and 2018.

Table 19: Income statement – total for all insurance companies from RS

(in BAM)

ITEM	2017	Share	2018	Share	Index 2018/17
	Amount		Amount		
A. OPERATING INCOME AND EXPENSES					
I - Operating income (1+2+3+4+5+6)	219.831.516	91,1%	230.414.464	92,9%	104,8
1. Income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession in terms of life insurance	23.439.570		22.250.455		94,9
2. Income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession in terms of non-life insurance	173.519.981		187.154.224		107,9
3. Income from participation of co-insurance and reinsurance and retrocession in compensation for damage in terms of non-life insurance	6.101.597		6.860.268		112,4
4. Income from cancellation and reduction of provisions in terms of non-life insurance	5.704.080		2.647.752		46,4
5. Income from return of taxes and other levies, and income from premiums, subsidies, grants, donations, etc.	193.570		121.342		62,7
6. Other operating income	10.872.718		11.380.423		104,7
II - Operating expenses (1+2)	195.819.494	93,6%	205.854.113	95,6%	105,1
1. Functional expenses (1.1.+1.2.+1.3.)	112.552.077		123.336.778		109,6
1.1. Expenses for long-term provisions and functional contributions	16.804.885		16.299.130		97,0
1.2. Compensation for damage, contractual amounts and premiums in terms of co-insurance and reinsurance	8.872.500		8.702.749		98,1
1.3. Compensation for damage and other types of compensation in terms of non-life insurance	86.874.692		98.334.899		113,2
2. Expenses for execution of insurance	83.267.417		82.517.335		99,1
III - Operating profit/loss (I-II)	24.012.022		24.560.351		102,3
B. FINANCIAL INCOME AND EXPENSES					
I - Financial income	10.264.648	4,3%	10.683.309	4,3%	104,1
II - Financial expenses	1.016.127	0,5%	596.160	0,3%	58,7
III - Financial profit/loss (I-II)	9.248.521		10.087.149		109,1
AB - Profit/loss from regular operation (AIII+BIII)	33.260.543		34.647.500		104,2
C. OTHER INCOME AND EXPENSES					
I - Other income	6.306.318	2,6%	5.924.250	2,4%	93,9
II - Other expenses	9.925.696	4,7%	6.071.787	2,8%	61,2
III - Profit/loss from other income and expenses (I-II)	-3.619.378		-147.537		4,1
D. INCOME AND EXPENSES FROM PROPERTY VALUE ADJUSTMENT					
I - Income from property value adjustment	3.240.164	1,3%	572.105	0,2%	17,7
II - Expenses from property value adjustment	2.049.706	1,0%	2.300.711	1,1%	112,2
III - Profit/loss from property value adjustment (I-II)	1.190.458		-1.728.606		
E. INCOME FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS FROM PREVIOUS YEARS					
	85.382	0,0%	56.712	0,0%	66,4
E I - EXPENSES FROM CHANGES IN ACCOUNTING POLICIES AND CORRECTION OF ERRORS FROM PREVIOUS YEARS					
	109.150	0,1%	202.536	0,1%	185,6
F. PROFIT/LOSS BEFORE TAX (AB+CIII+ DIII+E-EI)	30.807.855		32.625.533		105,9
G. CURRENT AND DEFERRED INCOME TAX - Tax expenses in the reporting period					
	3.578.604		3.786.300		105,8
H - DEFERRED TAX EXPENSES IN THE REPORTING PERIOD					
	26.161	0,0%	9.361	0,0%	35,8
HI - DEFERRED TAX INCOME IN THE REPORTING PERIOD					
	1.816		695		38,3
I. NET PROFIT / NET LOSS IN THE REPORTING PERIOD (F-G-H+HI)=(I I-I 2)					
	27.204.904		28.830.567		106,0
1. Net profit in the current year	29.924.975		32.662.615		109,1
2. Net loss in the current year	2.720.071		3.832.048		140,9
J. OTHER GAINS AND LOSSES IN THE REPORTING PERIOD					
I - Gains determined directly in the capital	1.700.565	0,7%	297.077	0,1%	17,5
II - Losses determined directly in the capital	96.572	0,0%	346.588	0,2%	358,9

Report on the state of the insurance sector in the Republic of Srpska
for the period from 1 January 2018 to 31 December 2018

ITEM	2017	Share	2018	Share	Index 2018/17
	Amount		Amount		
III - Income tax referring to other gains and losses	123.116	0,1%	9.660	0,0%	7,8
K. TOTAL NET RESULT IN THE ACCOUNTING PERIOD (I+JI-JII±JIII)	28.685.783		28.771.396		100,3
L. TOTAL INCOME AND GAINS (AI+BI+CI+DI+E+HI+JI)	241.430.409	100,0%	247.948.612	100,0%	102,7
M. TOTAL EXPENSES AND LOSSES (AII+BII+CII+DII+EI+JII±JIII+H)	209.166.022	100,0%	215.390.916	100,0%	103,0
N. TOTAL GROSS RESULT IN THE ACCOUNTING PERIOD (L-M)	32.264.387		32.557.696		100,9
O. CURRENT AND DEFERRED INCOME TAX (G)	3.578.604		3.786.300		105,8
P. TOTAL NET RESULT IN THE ACCOUNTING PERIOD (N-O)=K	28.685.783		28.771.396		100,3

Sources: Income statements of the insurance companies from RS

The total income in 2018, including gains determined directly in the capital, was BAM 247.948.612, representing an increase of 2.7 % in comparison with the previous year.

The amount of operating income was BAM 230.414.464, which was higher by 4,8% and they comprised 92,9% of the total income. As for operating income, the amount of income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession of non-life insurance increased by 7.9%, income from share of co-insurance, reinsurance and retrocession in compensation for damage in terms of non-life insurance increased by 12.4% and other other operating income increased by 4.7%. Within operating income, there was a decrease of 5.1% in income from premiums and commissions for insurance, co-insurance, reinsurance and retrocession of life insurance, and decrease of 53.6% in income from cancellation and reduction of provisions in terms of non-life insurance. Income from return of taxes and other levies, and income from premiums, subsidies, grants, donations, etc. decreased by 37.3%. However, nominally speaking, their share in operating income is not materially significant.

The amount of financial income comprised 4.3% of the total income, and it increased by 4.1%. The share of other income in the total income was 2.4 % representing a decrease of 6.1%, and their decrease was affected by the decrease of amount of recovery of outstanding written-off debts of one insurance company in comparison to the previous year.

The share of income from property value adjustment in the total income was 0.2%, which was decreased by 82.3% which arises from the fact that one insurance company did not have the obligation to show their income from adjustment of values of investment real estate in this reporting period. Namely, in the previous period one insurance company showed income from adjustment of value of assets obtained through collection of recievables from specific business operations (court's decision).

Income from changes in accounting policies and correction of errors from previous years decreased by 33.6% but their impact on the total result was not substantially significant.

Gains determined directly in the capital decreased by 82.5% and were significantly affected by the decrease of gains on change of fair value of securities available for sale at one insurance company.

The amount of operating expenses comprised 95.6 % of the total expenses, and they totalled BAM 205,854,113 and were greater by 5.1%. The amount of functional expenses comprised 59.9 % of operating expenses and expenses for execution of insurance 40.1%. Expenses referring to compensation for damage and other types of compensation in terms of non-life insurance, which make 79.7% of functional expenses, increased by 13.2%. Although greater premium was written in the reporting period, the amount of expenses for execution of insurance remained approximately the same as the previous year which is a positive change in comparison to the previous period.

The share of other expenses in the total expenses was 2.8 %, representing a decrease of 38.8 %, which was significantly affected by the decrease in expenses from writings off of receivables in one insurance company.

In the structure of total expenses, the share of financial expenses was 0.3%, the share of expenses from property value adjustment was 1.1 %, 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 0.2%. 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 2018, regardless of their relative change.

The amount of operating profit was BAM 24.560.351, and it was higher by 2.3%, while the amount of profit from regular operation (including financial income and expenses) totalled BAM 34.647.500, representing an increase of 4.2%.

Net result in the accounting period was a profit in the amount of BAM 28.830.567. Eleven insurance companies generated a net profit in the amount of BAM 32.662.615, while four insurance companies generated a net loss in the amount of BAM 3.832.048. Nevertheless, the loss generated by these insurance companies did not hinder their compliance with the capital adequacy requirements.

The total net result in the accounting period referring to the sector was calculated as a difference between total income, gains determined directly in the capital on one hand and total expenses, losses determined directly in the capital and current and deferred income tax, on the other hand and it represents a profit in the amount of BAM 28.771.396.

One insurance company corrected some balance sheet items of the financial statements for the previous year. 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 2017 presented in this report differ from the data for the same year in the Report on the state in the insurance sector for the period from 1 January to 31 December 2017 and the total net result in the accounting period is greater by BAM 4.537.

2.2.3. Consolidated financial statements

Of the total of 15 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 ("Official Gazette of the Republic of Srpska" No. 94/15), 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, one insurance companies reported a profit totalling BAM 6.561.509, while three insurance companies reported a loss totalling BAM 3.991.668 . 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 2.569.841.

The profit reported in the individual audited financial statements of these insurance companies totalled BAM 3.147.599, which was higher by BAM 577.758 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 capital¹⁰, while the share capital must be at least equal to the amount of the guarantee fund¹¹. Composite insurance companies must report the compliance with the capital adequacy requirements separately for life and non-life insurance.

Table 20: Compliance with the capital adequacy requirements

No	Description	(in BAM)			
		2017		2018	
		Non-life insurance	Life insurance	Non-life insurance	Life insurance
1.	Share capital	86.150.399	14.289.633	96.176.536	15.585.352
2.	Guarantee fund	57.000.000	9.000.000	62.000.000	9.000.000
3.	More/less share capital (1-2)	29.150.399	5.289.633	34.176.536	6.585.352
4.	Available capital	79.959.064	12.353.882	88.868.006	11.973.692
5.	Adequacy threshold of the available capital	57.000.000	9.428.604	62.000.000	9.837.938
6.	More/less available capital (4-5)	22.959.064	2.925.278	26.868.006	2.135.754

Source: Reports of the insurance companies from RS

¹⁰ 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.

¹¹ 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.

The total share capital of all insurance companies with HQ in the Republic of Srpska, as at 31 December 2018, including the capital of both life and non-life insurance, was BAM 111.761.888, and it was higher than the guarantee fund by BAM 40.761.888 or 57,4%. The share capital for non-life insurance was higher by 51.1 %, and the share capital for life insurance was higher by 73.2% than the guarantee fund.

The total available capital of all insurance companies with HQ in the Republic of Srpska¹², as a total for life and non-life insurance, determined for the purpose of reporting the compliance with the capital adequacy requirements, was BAM 100.841.698. The surplus of available capital in relation to the adequacy threshold of the available capital was reported in the amount of BAM 29.003.760 (40,4%), of which BAM 26.868.006 in non-life insurance (or 43,3%) and BAM 2.135.754 of surplus in life insurance (21,7%).

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.

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. These funds are used for the protection of interests of insurer and insured and cannot be used for other purposes. All insurance companies complied with this requirement, i.e. they possessed the required coverage in the above-mentioned fund. At the end of this reporting period, time deposit of one insurance company expired. In the beginning of 2019 this insurance company reinvested their funds by which it formally fulfilled this request again.

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

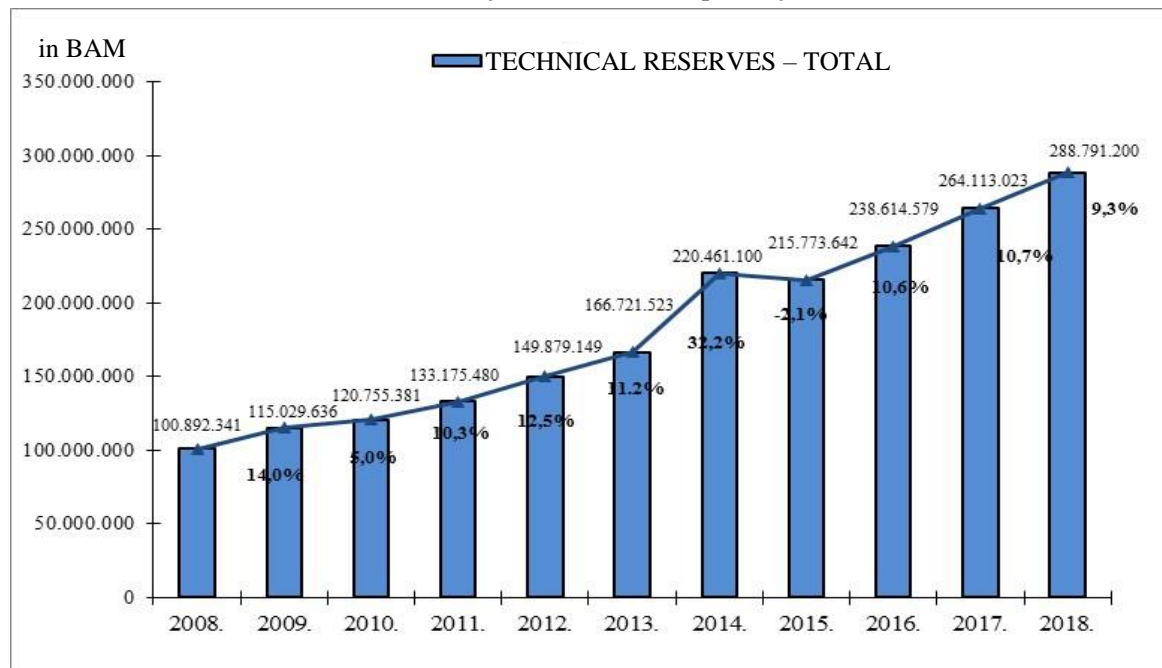
2.3.2.1.Total calculated technical reserves

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 and indirect 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 2018.

¹² 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.

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



Source: Reports of the insurance companies from RS

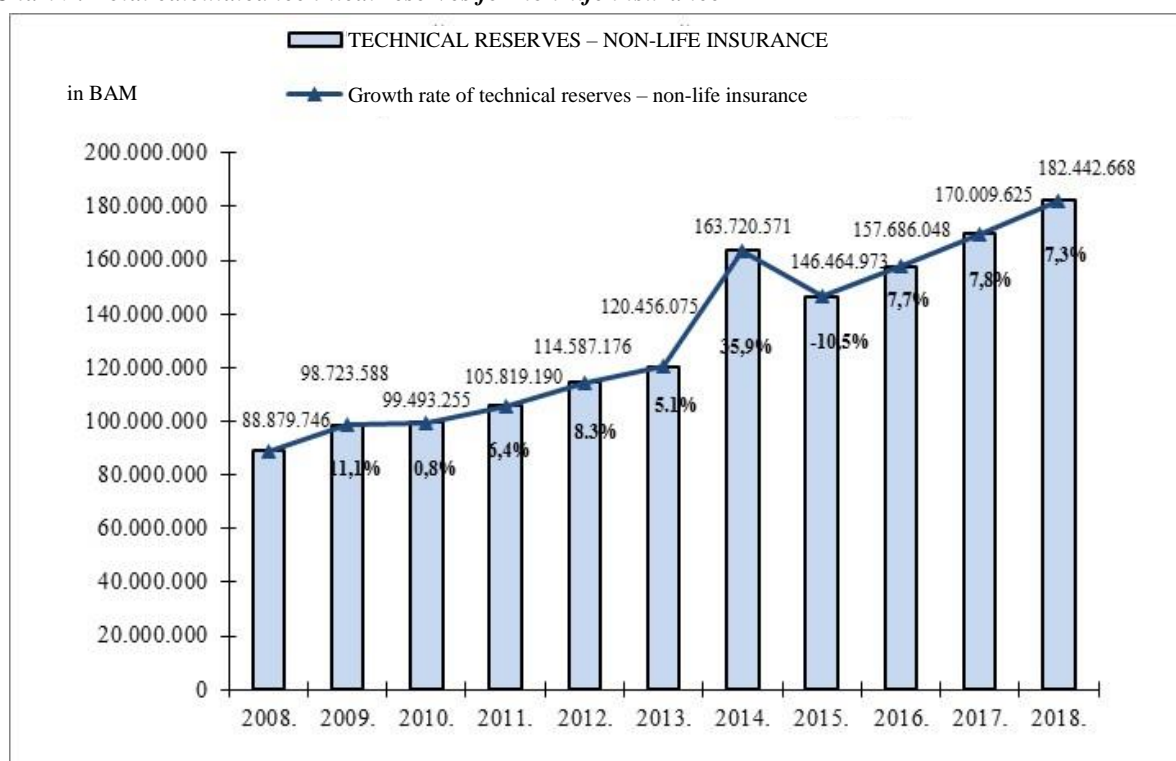
As at 31 December 2018, the total calculated technical reserves of all insurance companies with HQ in the Republic of Srpska were higher by 9.3% in comparison with the same day of the previous year.

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 2018, are shown in the chart below.

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

Source: Reports of the insurance companies from RS

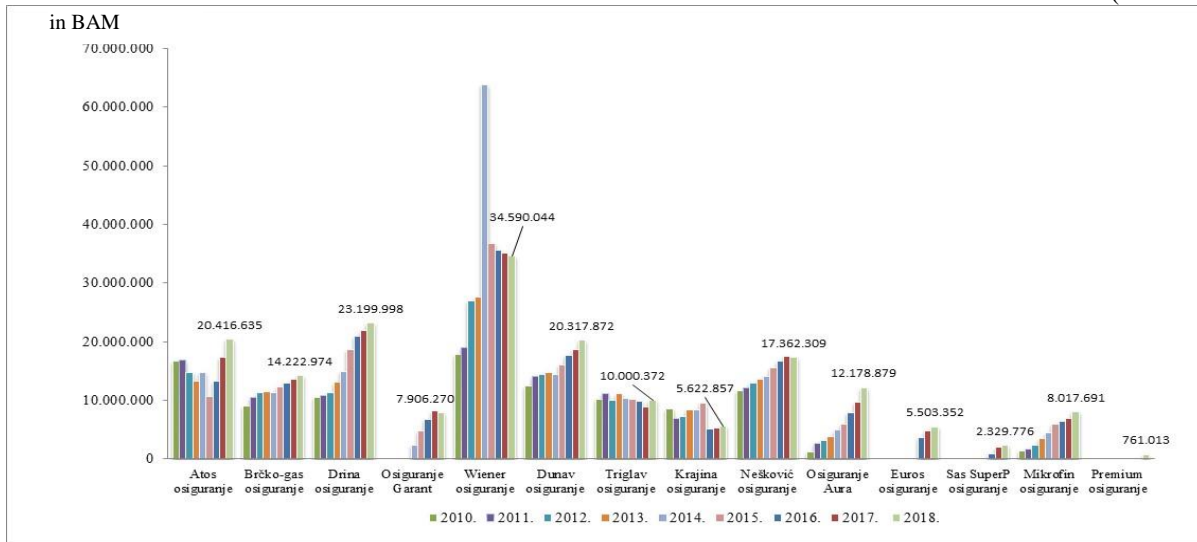
The total calculated technical reserves for non-life insurance, as at 31 December 2018, were BAM 182.442.668, and they were higher by 7.3 % in comparison with the previous year. The increase of the amount of calculated technical reserves is related to the increase of the amount of premium written and realisation of risks taken with the execution of the insurance contract.

The chart below shows the calculated technical reserves for non-life insurance individually, by insurance company with HQ in the Republic of Srpska.¹³

¹³ 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.

Chart 10: Overview of the calculated technical reserves for non-life insurance by insurance company from RS

(in BAM)

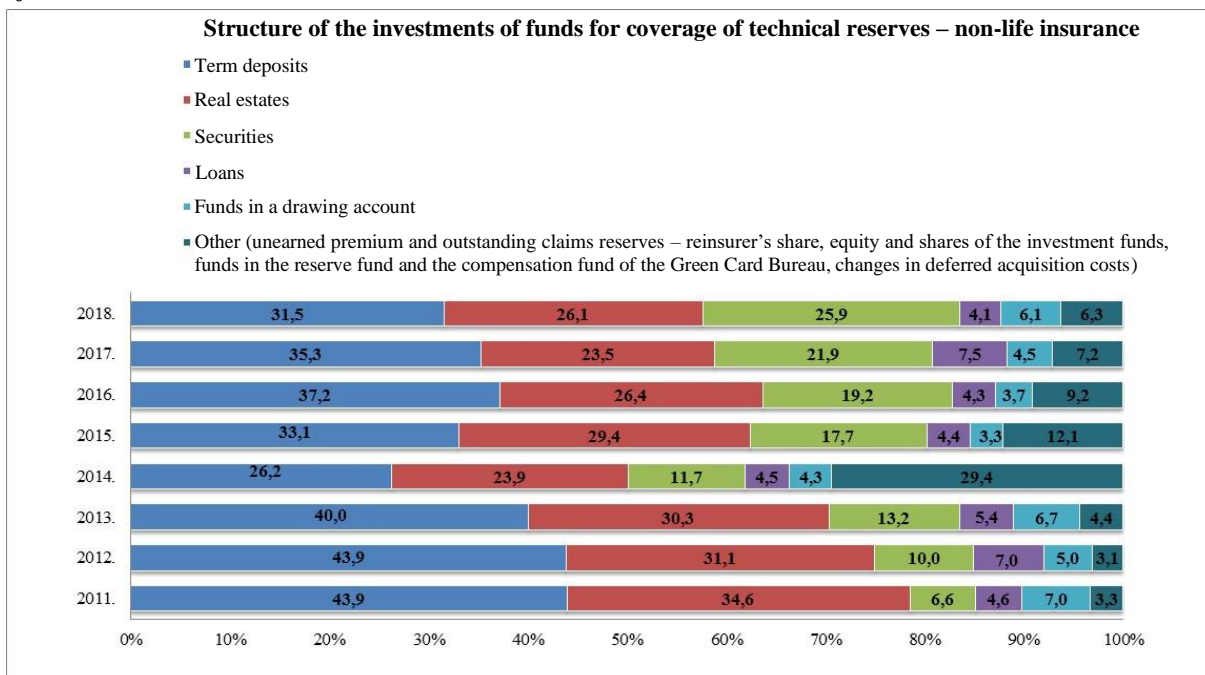


Source: Reports of the insurance companies from RS

The chart shows that, at 31 December 2018, there was a decrease in the amount of calculated technical reserves of three insurance companies in comparison with the same day of the previous year, which at two insurance companies was caused by the decrease of the amount of unearned premium written due to the smaller amount of premium written, and at one insurance company it was caused by the calculation of claims reserve.

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 83.5%. 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.

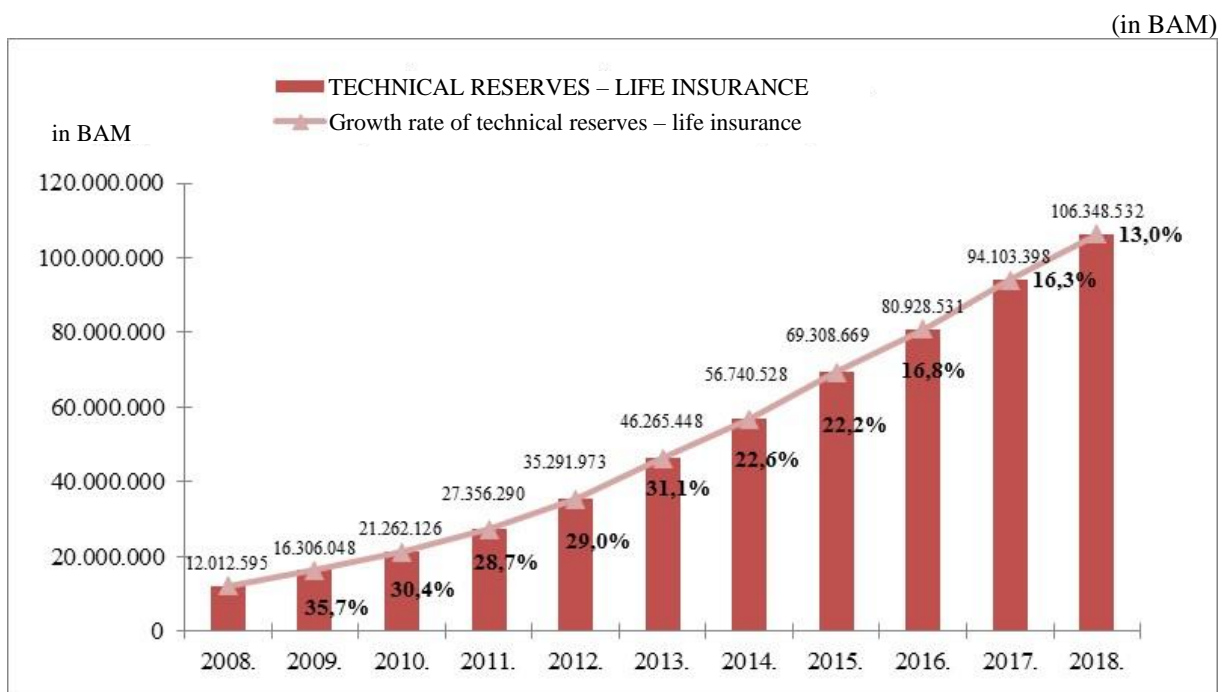
At the end of 2018, one non-life insurance company reported a shortage of funds for coverage of technical reserves which is connected to the expiry of term deposit maturity to a certain degree. At the beginning of 2019, this company has made new investment of funds, which reduced the shortage of funds for coverage of technical reserves.

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.

Chart 12: Total calculated technical reserves for life insurance

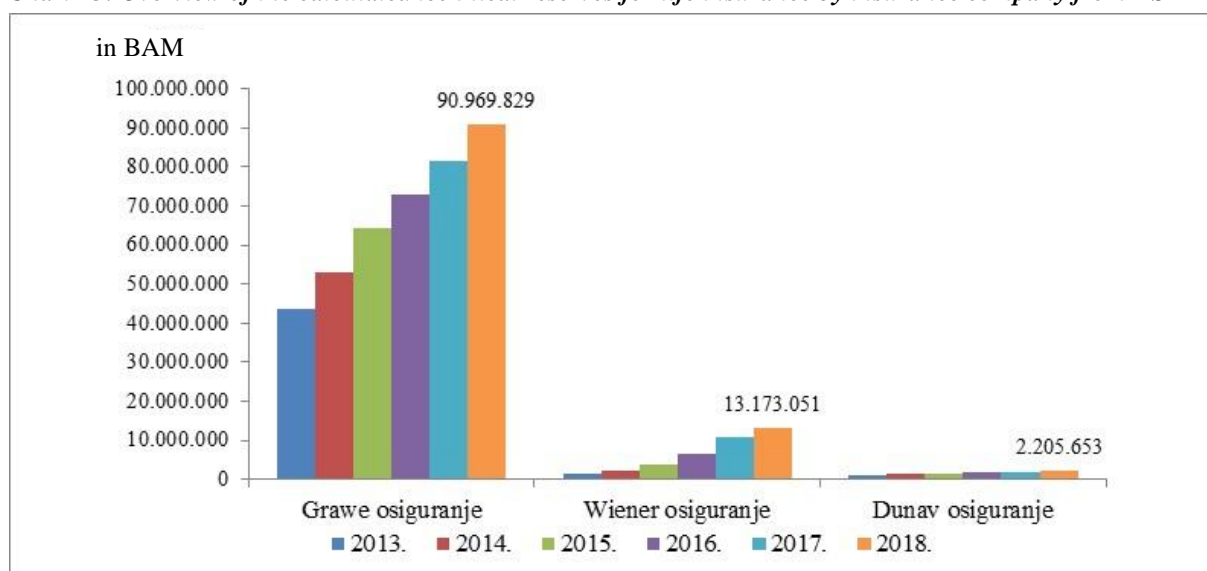


Source: Reports of the insurance companies from RS

As of 31 December 2018, total calculated technical reserves for life insurance were BAM 106.348.532 and they increased by 13% in comparison to the same day of the previous year.

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

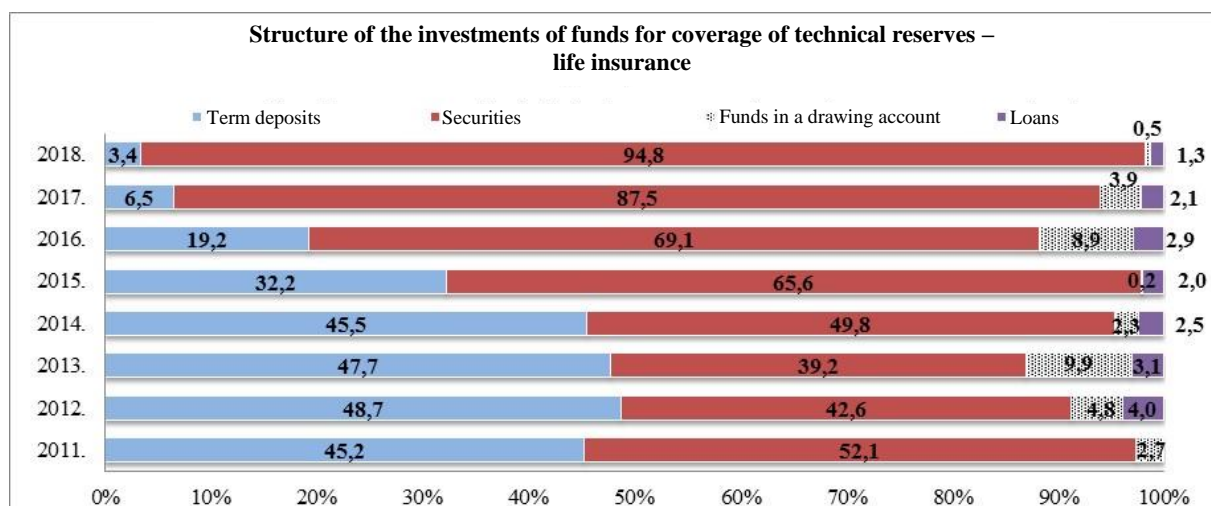


Source: Reports of the insurance companies from RS

The difference in the amount of the calculated technical reserves for life insurance between the individual insurance companies arises from the differences in the amounts of mathematical reserves and is proportional to the share of these companies in the total life insurance premium.

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



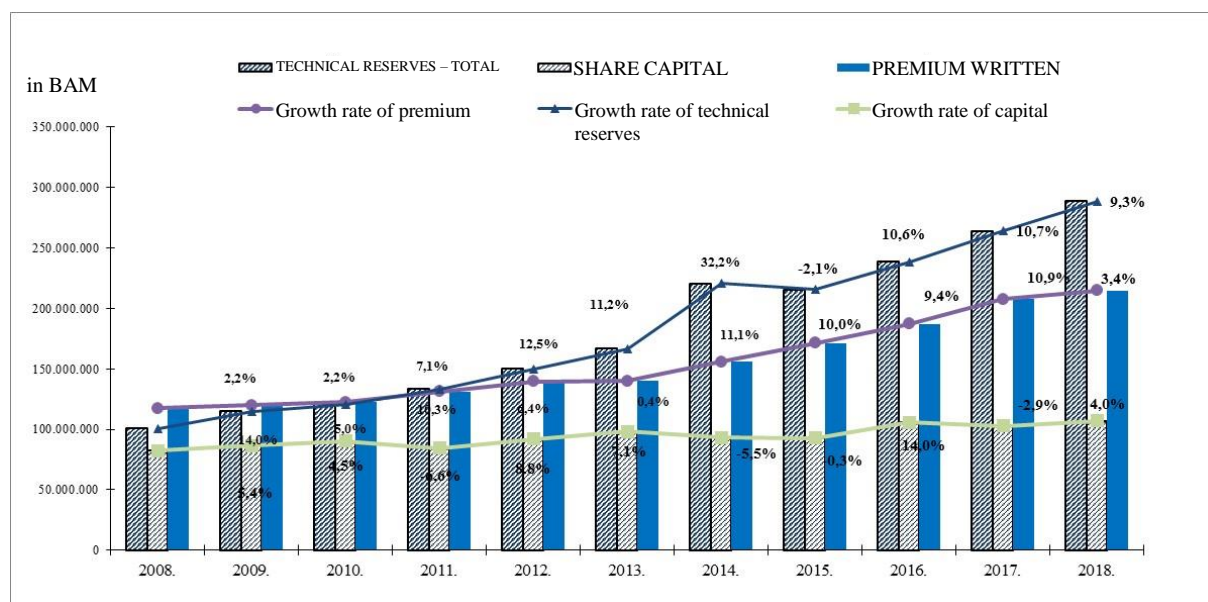
Source: Reports of the insurance companies from RS

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 the most 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 2018, the total amount of the calculated technical reserves was higher than the total premium written by 34.3% which was affected by the growth and maturity of portfolio of life insurance and related increase of the amount of mathematical reserves as well as monitoring activities of the Agency.

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 liabilities) may be found below.

In 2018, the insurance companies with HQ in the Republic of Srpska paid a total of BAM 72.866.458 to insured persons and beneficiaries, which represents an increase of BAM 9.252.892 or 14,5% in comparison with 2017, when the amount of insurance claims paid was BAM 63.613.566.

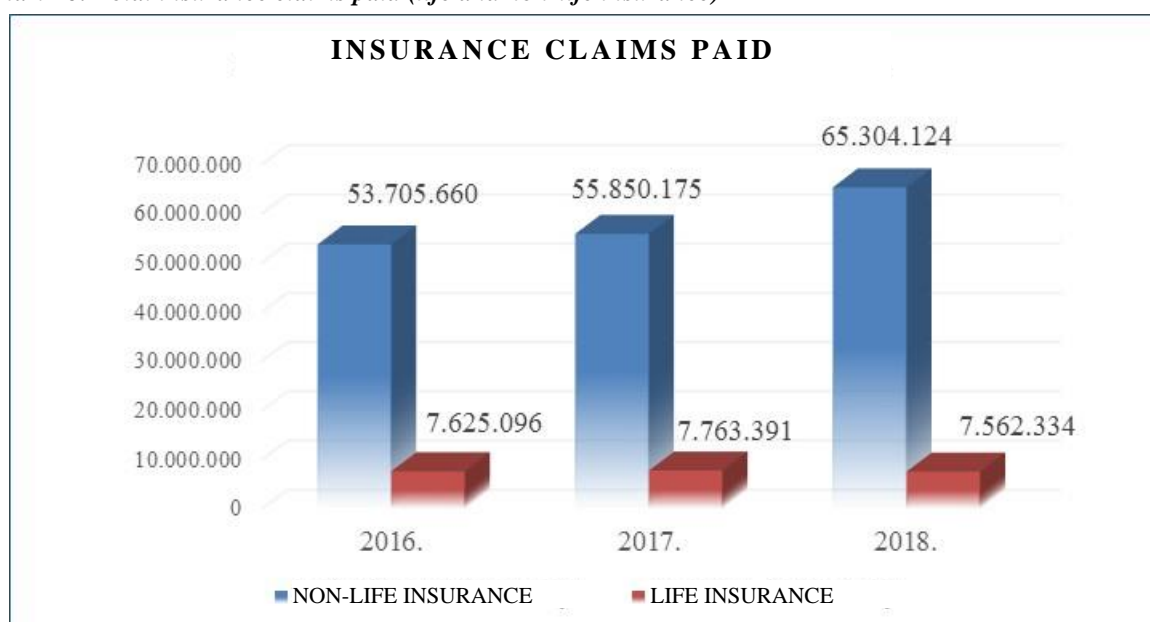
Table 21: Amount of total insurance claims paid by type of insurance

(in BAM)			
TYPES OF INSURANCE	2016	2017	2018
Accident insurance	4.440.273	4.502.212	5.553.498
Health insurance	429.061	601.879	932.896
Land vehicle insurance (except for railway vehicles)	7.277.896	9.011.077	9.577.352
Aircraft insurance	10.468		
Insurance of goods in transport	18.513	17.267	73.182

TYPES OF INSURANCE	2016	2017	2018
Insurance of property against fire and natural forces	2.496.166	1.613.958	1.303.032
Insurance against other types of property damage	4.319.691	3.980.139	2.384.176
Motor vehicle liability insurance	34.544.868	35.831.183	45.186.329
Civil liability insurance	138.512	251.921	229.282
Credit insurance	1.059	1.451	7.936
Insurance against various financial losses	27.491	35.559	52.163
Travel insurance	1.662	3.529	4.280
TOTAL NON-LIFE INSURANCE	53.705.660	55.850.175	65.304.124
Life insurance	6.607.205	7.026.008	6.523.875
Annuities		221	2.648
Additional insurance to life insurance	1.017.891	737.163	1.035.811
TOTAL LIFE INSURANCE	7.625.096	7.763.391	7.562.334
TOTAL:	61.330.756	63.613.566	72.866.458

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 22: Efficiency in the settlement and payment of insurance claims

Description	2016.	2017.	2018.
Rate of efficiency in the settlement of insurance claims in non-life insurance (in %)	81,0	82,7	84,4
Rate of efficiency in the settlement of insurance claims in life insurance (in %)	91,9	85,8	89,7
Rate of efficiency in the payment of insurance claims in non-life insurance (in %)	98,7	98,1	99,3
Rate of efficiency in the payment of insurance claims in life insurance (in %)	100,0	100,0	100,0

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 23: 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.	88,1	100,0
2.	D.D. Brčko gas osiguranje	76,4	100,0
3.	Euros osiguranje A.D.	79,9	99,4
4.	Drina osiguranje A.D.	78,1	100,0
5.	Dunav osiguranje A.D.	76,3	100,0
6.	Wiener osiguranje A.D.	74,2	96,2
7.	Krajina osiguranje A.D.	64,0	97,7
8.	Mikrofin osiguranje A.D.	92,3	100,0
9.	Nešković osiguranje A.D.	78,4	100,0
10.	Osiguranje Aura A.D.	92,0	100,0
11.	Osiguranje Garant D.D.	78,4	99,9
12.	Premium osiguranje A.D.	100,0	100,0
13.	Triglav osiguranje A.D.	81,6	98,5
14.	SAS-SuperP OSIGURANJE A.D.	95,1	100,0
	TOTAL:	81,0	99,5

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 24: Technical result

(in BAM)

No	Types of insurance	Technical result		
		2016	2017	2018
1.	Accident insurance	3.954.510	4.568.505	5.067.411
2.	Health insurance	845.143	849.542	1.073.238
3.	Land vehicle insurance (except for railway vehicles)	2.523.047	1.645.907	2.368.368
4.	Railway vehicle insurance	0	0	0
5.	Aircraft insurance	35.416	20	68
6.	Vessel insurance	-24.118	-5.172	4.471
7.	Insurance of goods in transport	437.544	560.965	409.346
8.	Insurance of property against fire and natural forces	2.929.707	1.958.103	3.025.150
9.	Insurance against other types of property damage	2.422.404	2.744.097	1.462.693
10.	Motor vehicle liability insurance	73.758.366	85.639.224	86.071.957
11.	Civil liability insurance for aircraft	5.772	5.390	10.853
12.	Civil liability insurance for vessels	417	1.161	1.858
13.	Civil liability insurance	490.962	604.267	833.269
14.	Credit insurance	64.914	79.266	66.782
15.	Guarantee insurance	6.292	12.899	14.898
16.	Insurance against various financial losses	263.961	438.923	323.259
17.	Legal protection insurance	0	0	0
18.	Travel insurance	2.673	648	20.928
	NON-LIFE INSURANCE	87.717.009	99.103.748	100.754.551
19.	LIFE INSURANCE	6.676.695	7.372.020	7.194.310
	TOTAL	94.393.704	106.475.768	107.948.861

Source: Reports of the insurance companies from RS

When it comes to all types of insurance, the total technical result was positive, i.e. the total premium was sufficient to settle the liabilities towards the insured persons, insurance beneficiaries and third injured parties.

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 25: Loss ratio, expense ratio and combined ratio

DESCRIPTION	2016.	2017.	2018.
Loss ratio (%)	35,8	33,4	38,0
Expense ratio (%)	41,0	39,9	37,2
Combined ratio (%)	76,8	73,4	75,2

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 2018, the combined ratio was below 100, which means that the result of the insurance activities was positive. The increase of loss ratio is related to the increase of the amount of insurance claims, while the decrease of expense ratio is related to the decrease in growth rate of premium written with approximately same amount of expenses, when comparing 2018 to 2017.

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 26: Profitability indicators

DESCRIPTION	2016.	2017.	2018.
Return on assets (ROA %)	2,7	6,5	6,3
Return on equity (ROE %)	8,4	20,1	19,8

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 are approximately the same as in 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 27: Other performance indicators

DESCRIPTION	2016	2017 ¹⁴	2018
Premium per employee (in BAM)	134.429	143.768	140.424
Total income per employee (in BAM)	154.477	166.964	161.758
Profit per employee (in BAM)	7.515	18.814	18.831
Profit / Total income (%)	4,9	11,3	11,6
Solvency ratio (%)	77,5	74,9	80,1
General liquidity (%)	5,6	4,7	4,8

Source: Reports of the insurance companies from RS

As of 31 December 2018, there were no significant changes in the performance indicators listed in the table above in comparison to the previous year and it needs to be emphasized that the general liquidity coefficient is much higher than 1, which indicates the capability to settle the liabilities within the periods of maturity.

¹⁴ The data for 2017 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.

3. VOLUNTARY PENSION INSURANCE

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 a.d. 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 2018, 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 %) and domestic ownership of 33% (Pension Reserve Fund - PREF).

The table below shows a shortened overview of the balance sheet of the company for voluntary pension fund management for 2017 and 2018.

Table 28: Balance sheet of the company for voluntary pension fund management

(in BAM)

ITEM	31 December 2017	%	31 December 2018	%	Index 2018/2017
ASSETS					
A. FIXED ASSETS	1.586.534	38,6	1.529.813	43,1	96,4
I - Intangible assets	26.736	0,7	26.027	0,7	97,3
II - Real estates, plant, equipment and investment property	209.798	5,1	153.786	4,3	73,3
III - Biological assets and agricultural produce	0	0,0		0,0	0,0
IV - Long-term financial investments	1.350.000	32,8	1.350.000	38,0	100,0
V - Deferred tax funds	0	0,0		0,0	0,0
B. CURRENT ASSETS	2.524.678	61,4	2.021.022	56,9	80,1
I - Inventories, fixed assets and assets of discontinued operations held for sale	0	0,0	0	0,0	0,0
II - Short-term receivables, short-term investments and cash	2.524.678	61,4	2.021.022	56,9	80,1
III - Deferred tax funds	0	0,0	0	0,0	0,0
C. BUSINESS ASSETS	4.111.212	100,0	3.550.835	100,0	86,4
D. LOSS OVER THE CAPITAL	0	0,0	0	0,0	
E. OPERATING ASSETS	4.111.212	100,0	3.550.835	100,0	86,4
F. OFF-BALANCE-SHEET ASSETS	0	0,0	0	0,0	
G. TOTAL ASSETS	4.111.212	100,0	3.550.835	100,0	86,4
LIABILITIES					
A. CAPITAL	4.073.682	99,1	3.518.277	99,1	86,4
I - Share capital	4.400.000	107,0	4.400.000	123,9	100,0
II - Subscribed capital unpaid	0	0,0	0	0,0	0,0
III - Share issuance premium	0	0,0	0	0,0	0,0
IV - Share issuance loss	0	0,0	0	0,0	0,0
V - Reserves	0	0,0	0	0,0	0,0
VI - Revaluation reserves	0	0,0	0	0,0	0,0
VII - Unrealised gains on financial assets available for sale	0	0,0	0	0,0	0,0

ITEM	31 December 2017	%	31 December 2018	%	Index 2018/2017
VIII - Unrealised losses on financial assets available for sale	285	0,0	220	0,0	77,2
IX - Undistributed profit	0	0,0	0	0,0	
X - Loss up to the amount of capital	326.033	7,9	881.503	24,8	270,4
1. Loss from previous years		0,0	326.033	9,2	0,0
2. Loss from the current year	326.033	7,9	555.470	15,6	170,4
B. PROVISIONS, DEFERRED TAX LIABILITIES AND ACCRUED INCOME	0	0,0	0	0,0	0,0
C. OBLIGATIONS	37.530	0,9	32.558	0,9	86,8
I - Long-term obligations	0	0,0	0	0,0	0,0
II - Short-term obligations	37.530	0,9	32.558	0,9	86,8
D. OPERATING LIABILITIES	4.111.212	100,0	3.550.835	100,0	86,4
E. OFF-BALANCE-SHEET LIABILITIES	0	0,0	0	0,0	0,0
F. TOTAL LIABILITIES	4.111.212	100,0	3.550.835	100,0	86,4

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

The amount of operating assets and liabilities, as at 31 December 2018, was BAM 3.550.835 and is decreased by BAM 560.377 or 13,6 % in comparison to 31 December 2017.

In the structure of operating assets, the share of fixed assets was 43,1%, and the share of current assets was 56,9 %.

The share of long-term financial investments within fixed assets was 88,2% and they referred to the investment in the financial assets available for sale - bonds of the Republic of Srpska (BAM 1.000.000) and term deposits (BAM 350.000). Real estates, plant, equipment and investment property comprised 10,1% of fixed assets, while the share of intangible assets was 1,7 %.

When it comes to the structure of current assets, the share of financial assets marked by fair value in the income statement was 52,1% (BAM 1.053.321) and the share of term deposits was 34,6% (BAM 700.000) the share of cash was 10,5% (BAM 211.333) while the total share of the other items was 2,8 % (BAM 56.368).

In the structure of operating liabilities, the share of capital was 99,1 % and the share of liabilities was 0 %.

The amount of capital was BAM 3.518.277, which was lower than the amount of share capital by the amount of loss up to the amount of capital (BAM 881.503) and unrealised loss on financial assets available for sale (BAM 220). Obligations were only BAM 32.558.

The table below shows a shortened overview of the income statement of the company for voluntary pension fund management for 2018.

Table 29: Income statement of the company for voluntary pension fund management

(in BAM)

ITEM	2017	%	2018	%	Index 2018/2017
A. OPERATING INCOME AND EXPENSES					
I - Operating income	51	0,2	6.564	9,6	12.870,6
II - Operating expenses	349.531	99,9	595.290	95,4	170,3
B. OPERATING PROFIT	0		0		
C. OPERATING LOSS	349.480		588.726		168,5
D. FINANCIAL INCOME AND EXPENSES					
I - Financial income	23.662	99,8	57.191	83,1	241,7
II - Financial expenses	215	0,1	230	0,0	107,0
E. PROFIT FROM REGULAR OPERATION	0		0		
F. LOSS FROM REGULAR OPERATION	326.033		531.765		163,1
G. OTHER INCOME AND EXPENSES					
I - Other income	0		5.034	7,3	
II - Other expenses	0		0		
H. PROFIT FROM OTHER INCOME AND EXPENSES	0		5.034		
I. LOSS FROM OTHER INCOME AND EXPENSES	0		0		
I- INCOME AND EXPENSES FROM PROPERTY VALUE ADJUSTMENT					
I - Income from property value adjustment					
II - Expenses from property value adjustment			28.739	4,6	
J. PROFIT FROM PROPERTY VALUE ADJUSTMENT					
K. LOSS FROM PROPERTY VALUE ADJUSTMENT	0		28.739		
J. NET PROFIT AND NET LOSS IN THE REPORTING PERIOD					
II - Net profit in the reporting period	0		0		
II - Net loss in the reporting period	326.033		555.470		170,4
TOTAL INCOME	23.713	100,0	68.789	100,0	290,1
TOTAL EXPENSES	349.746	100,0	624.259	100,0	178,5

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

The total income in 2018 was BAM 68.789, within which the share of financial income (income from interest) was 83,1%, operating income (income from entrance fee and management fee) 9,6% and other income was 7,3%.

The total expenses in 2018 were BAM 624.259, within which the share of operating expenses was 95,4%. The amount of operating expenses comprised wages, employee benefits and other personal expenses (57,4%), intangible expenses (13 % of operating expenses), and depreciation, production services and taxes and contributions (29,6 % of operating expenses).

The net result in the reporting period was a loss in the amount of BAM 555.470.

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 a.d. 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.

The first payment to the voluntary pension fund was made on 30 November 2017. As of 31 December 2018 there were 991 active members in total. Average age of members of voluntary pension fund was 44,4 years and the average payment was BAM 64,96. Of all active members of the fund 98,6% joined the voluntary pension fund via pension plan and 1,4% via individual membership agreements.

The table below shows a shortened overview of the balance sheet of the voluntary pension fund for 2017 and 2018.

Table 30: Balance sheet of the voluntary pension fund

(in BAM)

Item	31 December 2017	%	31 December 2018	%
A. TOTAL ASSETS	2.503	100,0%	302.155	100,0%
I Cash	2.503	100,0%	34.631	11,5%
II Investments of the fund			266.015	88,0%
III Receivables			459	0,2%
IV Deferred tax funds				
V Accrued receivables			1.050	0,3%
B. OBLIGATIONS	51	100,0%	2.438	100,0%
I Obligations referring to business operations of the fund				
II Obligations referring to expenses of business operations			50	2,1%
III Obligations referring to the company for management of voluntary pension fund	51	100,0%	1.647	67,6%
IV Short-term financial obligations				
V Long-term obligations				
VI Other obligations of the fund				
VII Deferred tax obligations				
VIII Accrued costs and deferred income				
IX Obligations referring to membership			741	30,4%
C. NET ASSETS OF THE FUND	2.452		299.717	
D. CAPITAL	2.452		299.717	
I Share capital	2.495		295.118	
II Capital reserves				
III Revaluation reserves			3.861	
IV Reserves from profit				
V Undistributed profit			781	
VI Loss without coverage	43		43	
VII Unrealised profit/loss				
E. NUMBER OF ISSUED SHARES	253,53277210		29.864,1612602	
F. NET ASSETS PER SHARE	9,6726		10,03600	
G. OFF-BALANCE SHEET EVIDENCE				

Source: Data from the report of independent auditor for 2018

As of 31 December 2018, total assets of the voluntary insurance fund was BAM 302.155. The share of cash was 11,5%, share of investment into securities (bonds of the Republic of Srpska)

was 88 % and share of other items within these assets were 0,5%. On the other hand, total obligations were only BAM 2.438.

As of 31 December 2018, net value of the assets of the voluntary pension fund was BAM 299.717. Number of issued shares i.e. the number of subscribed units of account was BAM 29.864,1612602 and net worth per share was BAM 10,03600.15 Rate of return to the net assets of voluntary pension fund was 3,77661%.

The table below shows a shortened overview of the income statement of the voluntary pension fund for 2017 and 2018.

Table 31: Income statement of the voluntary pension fund

Item	(u KM)	
	2017	2018
A. REALISED GAINS AND LOSSES		
I Operating gains		2.832
II Realised gain		
III Operating losses	43	2.051
IV Realised loss		
V Realised gain /loss	-43	781
VI Financial gains		
VII Financial losses		
B. REALISED GAIN / LOSS PRIOR TO TAXATION	-43	781
C. CURRENT AND DEFERRED INCOME TAX		
D. REALISED GAIN / LOSS AFTER TAXATION	-43	781
E. UNREALISED GAINS AND LOSSES		
I Unrealised gains		3.861
II Unrealised losses		
F. TOTAL UNREALIZED GAINS (LOSSES) OF THE FUND		3.861
G. INCREASE (DECREASE) OF NET ASSETS DUE TO THE BUSINESS OPERATIONS OF THE FUND	-43	4.642

Source: Data from the report of independent auditor for 2018

The amount of realised incomes and expenses of voluntary pension fund and the result of business operations of company for management of voluntary pension fund in 2018 is in accordance with the level of business operations and the fact that the start of business operations of the company for management of voluntary pension fund was at the end of the previous year.

¹⁵The 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.