



MONTENEGRO
INSURANCE
SUPERVISION AGENCY

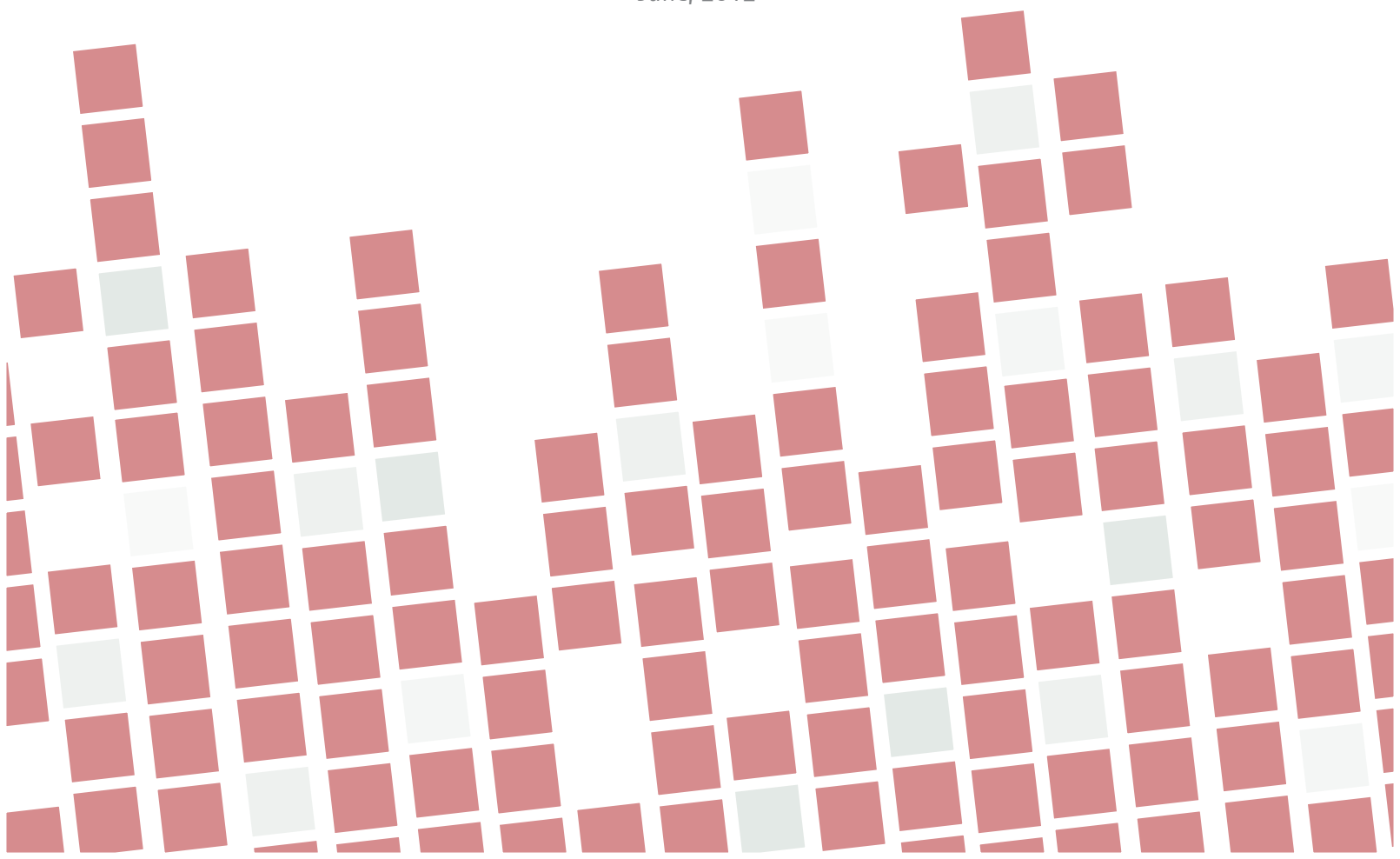
REPORT ON INSURANCE
MARKET IN MONTENEGRO 2011





Report on Insurance Market Situation
in Montenegro
2011

June, 2012





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in Montenegro 2011**

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CONTENTS:

INDEX OF TABLES AND FIGURES.....	4-5
I INTRODUCTION	7
1.1 Macro-economic indicators	8
II INSURANCE MARKET PARTICIPANTS.....	9
2.1 Insurance companies.....	11
2.2 Insurance agents and brokers and agencies for ancillary insurance services.....	12
2.3 Employees in insurance sector.....	13
III GENERAL INSURANCE MARKET INDICATORS.....	15
3.1 Written gross premium.....	17
3.2. Gross written premium share in GDP	17
3.3 Insurance density.....	19
3.4 Insurance market concentration in Montenegro	20
3.4.1 Herfindahl-Hirschman index	20
3.4.2 Share of insurance companies in written gross premium.....	21
IV INSURANCE PORTFOLIO STRUCTURES.....	23
4.1 Written gross insurance premium: life and non-life insurance.....	25
4.2 Structure of written gross premium by insurance classes	26
4.3 Compulsory insurance	27
4.4 Life insurance	28
V ASSETS STRUCTURE.....	29
VI STRUCTURE OF LIABILITIES AND CAPITALS	35
6.1 Technical provisions	38
VII DEPOSITING AND INVESTING TECHNICAL PROVISIONS FUNDS AND GUARANTEE RESERVE FUNDS...	41
7.1 Depositing and Investing Technical Provision Funds.....	43
VIII FINANCIAL OPERATING RESULTS	53
9.1 Solvency	55
9.2 Reinsurance.....	56
9.3 Profitability.....	58
9.4 Liquidity	59
9.5 Claims indicators	59
X ASSOCIATION – NATIONAL BUREAU OF INSURERS OF MONTENEGRO	63
XI INSURANCE COMPANIES IN MONTENEGRO.....	69

INDEX OF TABLES AND FIGURES

TABLES

Table 1 Breakdown of macro-economic indicators 2004.-2011.....	8
Table 2 Insurance companies operationally active in Montenegro in 2011	11
Table 3 Companies conducting agency activities in in Montenegro	12
Table 4 Companies conducting brokerage activities in Montenegro.....	13
Table 5 Companies conducting ancillary insurance services in Montenegro.....	13
Table 6 Total number of employees in insurance sector 2004-2011.....	13
Table 7 Insurance written gross premium trends in 2004-2011 (thousand €)	17
Table 8 Share of written gross premium in GDP in Montenegro in comparasion to other countries in 2010 (%).....	18
Table 9 Insurance density in neighbouring countries and EU countries in 2010 (\$)	19
Table 10 Herfindahl-Hirschman index 2009-2011.....	20
Table 11 Written gross premium of insurance companies in 2011 (€).....	21
Table 12 Insurance premium structure in 2010 and 2011	25
Table 13 Structure of insurance portfolio by insurance classes in 2010 and 2011	26
Table 14 Compuslory insurance premium by companies in 2011	28
Table 15 Share of auto liability written gross premium for 2010 by insurance companies.....	28
Table 16 Breakdwon of the number of life insured persons in 2010 and 2011	28
Table 17 Structure of Assets of Insurance Companies as of 31 December 2010 and 31 December 2011	31
Table 18 Share of insurance company in total assets of insurance sector on 31 December 2010 and 31 December 2011 (%)	32
Table 19 Structure of Liabilities and Capital of insurance companies on 31 December 2010 and 31 December 2011.....	37
Table 20 Structure of technical provisions of insurance companies on 31 December 2010 and 31	39
Table 21 Structure of net and gross technical provisions of insurance companies on 31 December 2011.....	44
Table 22 Gross and net technical provisions by insurance groups on 31 December 2011(€).....	44
Table 23 Structure of deposited and invested technical provisions funds into stipulated asset forms as of 31 December 2011, not complying with the restriction in compliance with the Rulebook.....	45
Table 24 Structure of deposited and invested net technical provision funds of companies in line with the restrictions stipulated by the Rulebook as of 31 December 2011	45
Table 25 Net financial result of insurance companies on 31 December 2010 and 31 December 2011	51
Table 26 Solvency of insurance companies on 31 December 2010 and 31 December 2011	53
Table 27 Ratio of total retained premium and total capital for companies engaged in non-life insurance operations on 31 December 2010 and 31 December 2011 (%).....	55
Table 28 Ratio of the total capital and technical provisions for companies engaged in life insurance operations on 31 December 2010 and 31 December 2011 (%).....	56
Table 29 Share of reinsurers in gross premium, processed claims and gross technical provisions, as of 31 December 2011.....	56
Table 30 List of reinsurance companies that companies in Montenegro were doing business with.....	57
Table 31 Retained loss ratio by classes of insurance as of 31 December 2011.....	58
Table 32 Profitability indicators on 31 December 2011.....	59
Table 33 Timelines in processing claims by insurance classes for the insurance market on December 2011.....	59
Table 34 Gross claims ratio of insurance companies on 31 December 2011.....	60
Table 35 Share of insurance-related costs and other operating costs arising from insurance operations in earned premium as of 31 December 2011	61
Table 36 Combined ratio on 31 December 2011 (%).....	62
Table 37 Calculation of contribution to the Guarantee Fund for all insurance companies on 31 December 2011	67

FIGURES

Figure 1 Share of gross written premium in GDP 2002-2011 (%).....	18
Figure 2 Written gross premium per capita 2002-2011 (€).....	19
Figure 3 Market share of insurance companies in 2011 (%).....	21
Figure 4 Gross premium trend: life vs. non-life 2002-2011	25
Figure 5 Gross premium structure: life v.s non-life 2002-2011	26
Figure 6 Structure of gross insurance premium by insurance classes in 2010 and 2011 (%)	27
Figure 7 Breakdown of assets of insurance companies on 31 December 2010 and 31 Decemeber 2011 (%).....	32
Figure 8 Share of assets of insurance companies in total assets of insurance sector on 31 December 2011 (%).....	33
Figure 9 Breakdown of Liabilities and Capital of insurance companies on 31 December 2010 and 31 December 2011 (%)	38
Figure 10 Structure of technical provisions of insurance companies on 31 December 2010 and 31 December 2011 (%).....	39
Figure 11 Trend of the total premium and technical provisions for the period 2006-2011.....	40
Figure 12 Trend of total premium and technical provisions indices for the period 2006-2011 (2006=100)	40
Figure 13 Structure of gross and net technical provisions of insurance companies on 31 December 2011 (thousand €).....	44
Figure 14 Structure of deposited and invested technical provisions funds in line with the restrictions stipulated by the Rulebook as of 31 December 2011 (%).....	46
Figure 15 Structure of deposited and invested technical provisions funds in line with the restrictions stipulated by the Rulebook as of 31 December 2011 (%).....	46
Figure 16 Total Guarantee reserve as of 31 December 2010 and 31 December 2011 (thousand €).....	47
Figure 17 Structure of investing and depositing the guarantee r eserve funds as of 31 December 2011 (%).....	48



I - INTRODUCTION

The Report on Insurance Market Situation in Montenegro 2011 has been prepared based on the analysis of reviewed annual financial statements and other data submitted by insurance companies to the Insurance Supervision Agency including, among other things, analysis of annual operational reports, including the opinion of the authorized actuary and the report of the external auditor¹.

The most significant events in Montenegro insurance market trends for 2011 are as follows:

- Oversight of insurance sector through permanent and proactive supervision;
- Regular reports on relevant operational and financial indicators for Montenegro insurance market;
- Intensifying the cooperation with the financial system institutions with the view of qualitative and efficient performance of supervision function;
- Continuing the reconciliation between the legislative and enabling regulations in the area of insurance based EU directives and best international practice;
- Cooperation with supervisory authorities in the region aimed at efficient performance of regulatory function (the Agency cooperates with the following regulators from the region: FMA- Austria, Insurance Supervision Agency of Slovenia, Croatian Financial Services Supervisory Agency of Croatia-CFSSA, Insurance Supervision Agency of Macedonia, Central Bank of Kosovo, Insurance Agency in Bosnia and Herzegovina, Insurance Agency of the Republic of Srpska, Insurance Supervision Agency of the Federation of Bosnia and Herzegovina, National Bank of Serbia, DNB-Dutch Bank, BNB-Bulgarian National Bank, etc.);
- Successful implementation of the Twining project “Strengthening of regulatory and supervisory capacities and financial regulators in Montenegro” in cooperation with Dutch Bank (DNB) and the National Bulgarian Bank (BNB) in November 2011;
- Ongoing training of the staff with the view of preparing for conduct of risk assessment based supervision, which is one of the basic principles of the EU Directive Solvency II, which is expected to be applied in the EU starting 1 January 2013;
- After a slight decline in 2010, the gross insurance premium records the growth in 2011;
- Growth of life insurance share in the market;
- Reduction in the market concentration;
- Achieving the positive net financial business result at the level of entire insurance market (seven companies generated the net income of €3,069 mil. as of 31 December 2011).

1- The financial and operational data for 2010 used in this report has been presented according to new balance forms of insurance companies which have been applied since 1 January 2011 as per Rulebook on the Chart of Accounts for Insurance Companies

1.1 Macro-economic indicators

After a slowdown in economic activity due to the global financial and economic crisis in 2009, the Montenegrin economy features a growth in economic activity in 2010 and 2011. Namely, there was the real growth of the gross domestic product by 2,5% in relation to the previous year.

According to the estimate of the Ministry of Finance of Montenegro, in 2011 the GDP amounted to 3,273 billion euro. Budgetary deficit amounted to 127,37 million euro, i.e. 3,89% GDP.

Unemployment rate in Montenegro in 2011 amounted 13,2. Positive trend is notable in the area of average net salaries, where, in comparison to the amount from the last year, there was nominal growth by 1,04%. In 2011 the inflation rate amounted to 2,8%.

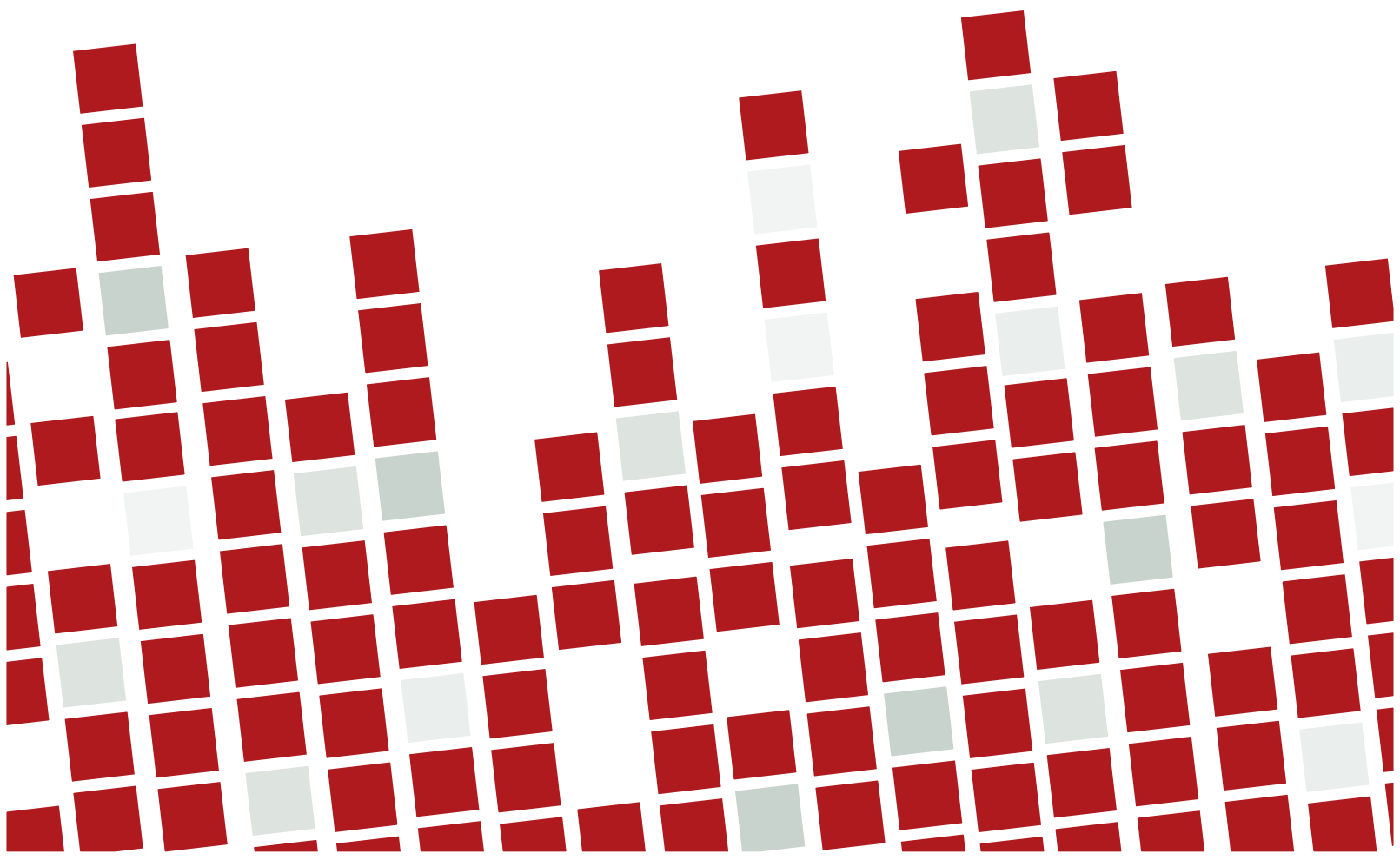
The following Table illustrates the macro-economic indicators:

Table 1 Breakdown of macro-economic indicators 2004.-2011

Indicators	Year							
	2004.	2005.	2006.	2007.	2008.	2009.	2010.	2011.
GDP (in million euro)	1.669,80	1.815	2.148,90	2.680,47	3.085,62	2.980,97	3.103,85	3.273,00
GDP per capita (€)	2.684	2.912	3.443	4.280	4.908	4.720	5.006	5.279
GDP growth rate (%)	4,4	4,2	8,6	10,7	6,9	-5,7	2,5	2,5
Inflation (CPI)	3	2,5	2,8	4,2	7,1	3,4	0,5	2,8
Population	620.195	620.195	620.195	620.195	620.195	628.349	625.266	625.266
Number of unemployed persons	58.950	48.845	38.876	31.469	28.378	30.169	32.106	30.552
Number of employed persons	143.479	144.340	150.800	156.408	166.221	174.152	161.742	163.082
Average gross salary (€)	302,9	327	377,36	497	609	643	715	722
Average net salary (€)	195,4	213	245,95	338	416	463	479	484
Budgetary surplus/deficit (in million euro)	-35,79	-45,55	74,24	176,96	15,17	-130,33	-112,24	-127,37
Export (in million euro)	452,2	460,65	648,30	483,40	450,40	296,30	356,60	476,50
Import (in million euro)	868,6	974,30	1.497,70	2.072,80	2.475,70	1.617,90	1.623,80	1.782,60
Foreing trade balance (in million euro)	-416,4	-513,65	-849,3	-1.544,40	-2.025,30	-1.321,60	-1.267,20	-1.306,10

Source: Ministry of Finance of Montenegro and Monstat

II - INSURANCE MARKET PARTICIPANTS





II - INSURANCE MARKET PARTICIPANTS

2.1 Insurance companies

In 2011 there were twelve insurance companies performing insurance business in the Montenegrin insurance market. Five insurance companies conducted non-life insurance business only, while seven insurance companies conducted life insurance business only.

Table 2 Insurance companies operationally active in Montenegro in 2011

Non-life insurance companies
Lovćen osiguranje AD
Sava Montenegro AD
Delta Generali osiguranje AD
Uniqa neživotno osiguranje AD
Swiss osiguranje AD
Life insurance companies
Grawe osiguranje AD
Uniqa životno osiguranje AD
Lovćen životna osiguranja AD
Merkur osiguranje AD
Wiener Städtische životno osiguranje AD
Delta Generali životna osiguranja AD
Atlas Life AD

Share capital of insurance companies

The total share capital of insurance companies as of 31 December 2011 amounted to 44,989 mil.euro, which presents a slight decline in relation to 2010 by 1,50%² (663 thousand euro). Foreign capital amounted to 38,423 mil.euro, or 85,41% share in the total share capital, and domestic capital amounted to 6,566 mil.euro, or 14,59%. The following insurance companies recored the growth of share capital value in 2011:

- Delta Generali životna osiguranja AD Podgorica in the amount of 150.000,00euro;
- Delta Generali osiguranje AD Podgorica in the amount of 200.000,00euro;
- Wiener Städtische životno osiguranje AD Podgorica in the amount of 600.000,00euro;
- Uniqa neživotno osiguranje AD Podgorica in the amount of 600.000,00euro.
- In the same time, the insurance companies Sava Montenegro and Swiss osiguranje reduced their share capital in the amount of 2,213 mil.euro, to cover losses from previous year.

2 - The total share capital of insurance companies as of 31 December 2010 amounted to 45,652 mil.euro;

Taking into consideration the ownership structure by companies in Montenegro, it may be concluded that foreign ownership is prevailing. Insurance companies Sava Montenegro, Grawe, Merkur, Wiener Städtische, Uniqa neživotno and Uniqa životno osiguranje are 100% under foreign ownership, while Lovćen osiguranje is over 90% under foreign ownership. Other insurance companies are under joint or majority domestic ownership.

2.2 Insurance agents and brokers and agencies for ancillary insurance services

Pursuant to Law on Insurance, the Insurance Supervision Agency issued licenses and authorizations for conduct of agency i.e. brokerage operations in insurance.

In 2011 the following was issued:

- Three licenses to the companies for agency in insurance;
- One license to a company for brokerage in insurance;
- 25 authorisations to physical persons for performance of agency activities;
- 15 authorisations to physical persons for performance of brokerage activities.

As of December 31 2011, in Montenegrin insurance market 15 companies for agency in insurance and 2 agents – entrepreneurs conducted agency operations, while 5 companies conducted brokerage operations in insurance.

Also, as of 31 December 2011, 407 physical persons in Montenegro had authorisations for conduct of agency operations in insurance, while 95 physical persons had authorisations for conduct of brokerage operations in insurance.

Table 3 Companies conducting agency activities in in Montenegro

Company	Activity
PRIMS DOO Nikšić	agency
IN.PRO DOO Podgorica	agency
Lojd Montenegro DOO Podgorica	agency
Rogošić Invest DOO Podgorica	agency
Montagent DOO Podgorica	agency
DOZ DOO Podgorica	agency
Safe Invest DOO Podgorica	agency
IURISPRUDENS DOO Podgorica	agency
Protektor Crna Gora DOO Podgorica	agency
Aktuar DOO Podgorica	agency
Obses DOO Podgorica	agency
Premija plus DOO Podgorica	agency
Ideal Life DOO Podgorica	agency
Indego Plus DOO Tivat	agency
Polis DOO Podgorica	agency
Elita-Meel zastupnik u osiguranju Tivat	Agent-entrepreneur
Expres-Ključ Rožaje	Agent-entrepreneur

Agency companies, which conducted activities of concluding insurance contracts on behalf of and for the account of insurers (issue of policies) and collecting premiums, as well as advisory and assistance operations in administration of claims and risk and loss assessment in 2011, sold 154.906 insurance policies (11,16% less in relation to 2010 when 174.355 insurance policies were sold) and generated the written gross premium in the amount of €23.545.304, as well as the share in the written gross premium of insurance market of 36,34%.

Table 4 Companies conducting brokerage activities in Montenegro

Company	Activity
Adriatic AG DOO Podgorica	brokerage
Auctor DOO Podgorica	brokerage
WVPCG DOO Budva	brokerage
PARTNER M DOO Podgorica	brokerage
Broker INS DOO Podgorica	brokerage

The basic function of a brokerage company is to bring into contact the insured, i.e. the policy holders with insurance companies to negotiate concluding of insurance contract. In 2011, the brokerage companies in Montenegrin insurance market concluded 3.724 insurance proposals (6,65% less in relation to 2010) and contracted the gross premium in the amount of 1,825 mil. euro with the share in the total written gross premium of the insurance market of 2,81%.

Table 5 Companies conducting ancillary insurance services in Montenegro

Company	Activity
Montenegro Assistance DOO Podgorica	provision of ancillary insurance services

2.3 Employees in insurance sector

Review of the number of employees at the level of the overall insurance sector in the period 2004 – 2011 is presented in the following Table:

Table 6 Total number of employees in insurance sector 2004-2011

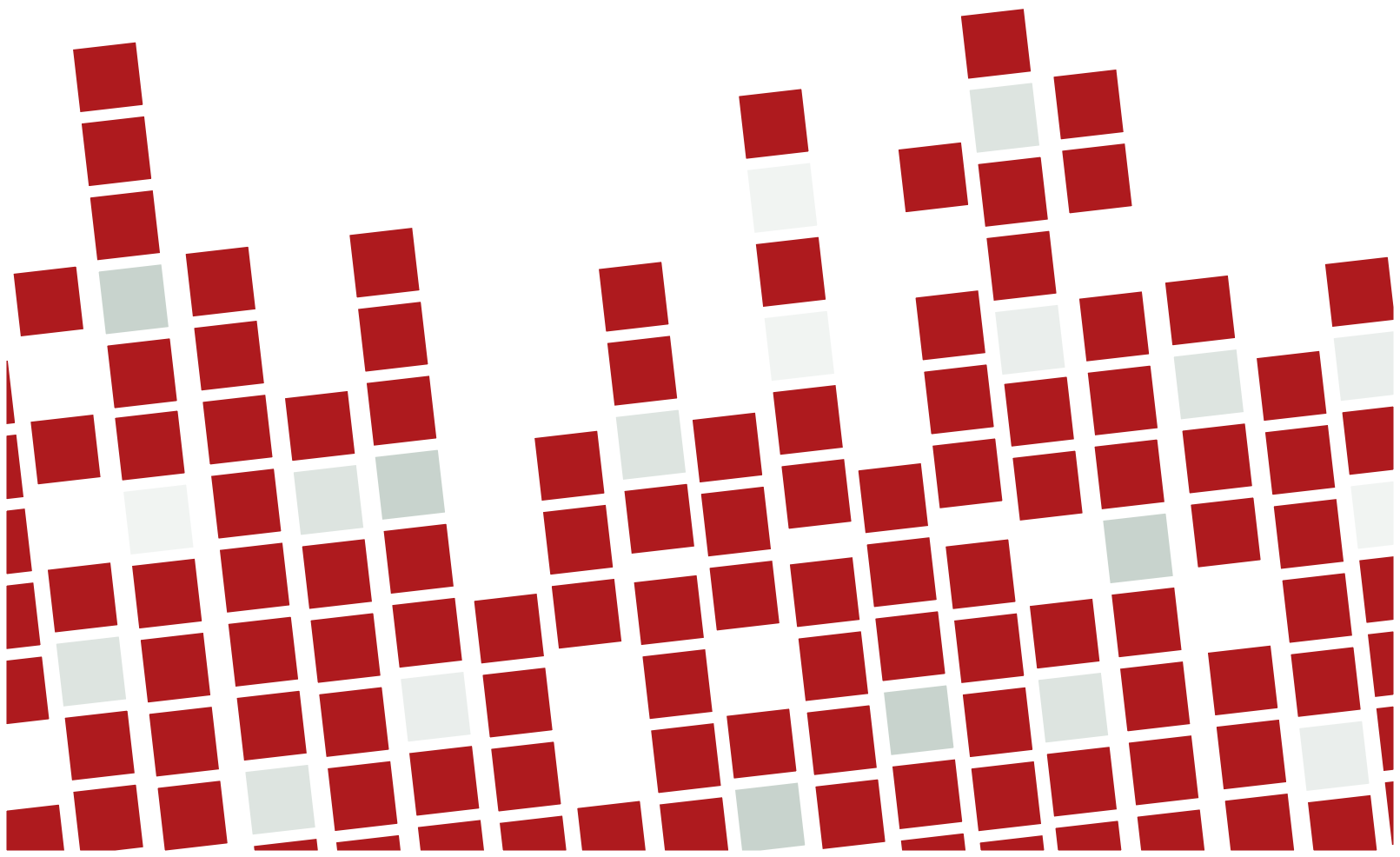
Year	2004	2005	2006	2007	2008	2009	2010	2011
Total employees in insurance sector	313	313	319	386	639	643	703	814

The number of employees in insurance sector from 2004 to 2011 constantly went up, indicating gradual development of insurance market in Montenegro. Abrupt growth is notable in 2008 when there were 639 employees in insurance sector, which is 65,54% higher in relation to 2007 when there were 386 employees in the insurance sector.

After the slight growth of the number of employees in insurance sector in 2009 and 2010, the growing trend of the number of employees continued in 2011 too, where the number of employees increased by 15,78% in relation to 2010.



III - GENERAL INSURANCE MARKET INDICATORS





III GENERAL INSURANCE MARKET INDICATORS

3.1 Written gross premium

In 2011, the written gross premium in the insurance market of Montenegro amounted to 64,792mil. euro³ and slightly increased by 4,19% in relation to the previous year. In the structure of written gross premium, the total non-life insurance premium grew by 3,6%, while the total life insurance premium grew by 8,3%, in relation to 2010.

Non-life insurance written gross premium includes all amounts of premiums underwritten in the current accounting period for the period to one year maximum, irrespective whether such amounts are related in whole or in part to the subsequent accounting period, while for life insurance it includes all amounts of premiums collected by the end of accounting period.

The following Table shows written gross premium in the period 2004.-2011:

Table 7 Insurance written gross premium trends in 2004-2011 (thousand €)

	2004	2005	2006	2007	2008	2009	2010	2011
Life	444	821	1.830	5.907	7.246	8.087	8.367	9.057
Non-life	25.673	31.202	37.792	45.110	53.332	57.483	53.819	55.735
TOTAL	26.117	32.023	39.622	51.017	60.578	65.570	62.186	64.792
Index	-	122,61	123,73	128,76	118,74	108,24	94,84	104,19

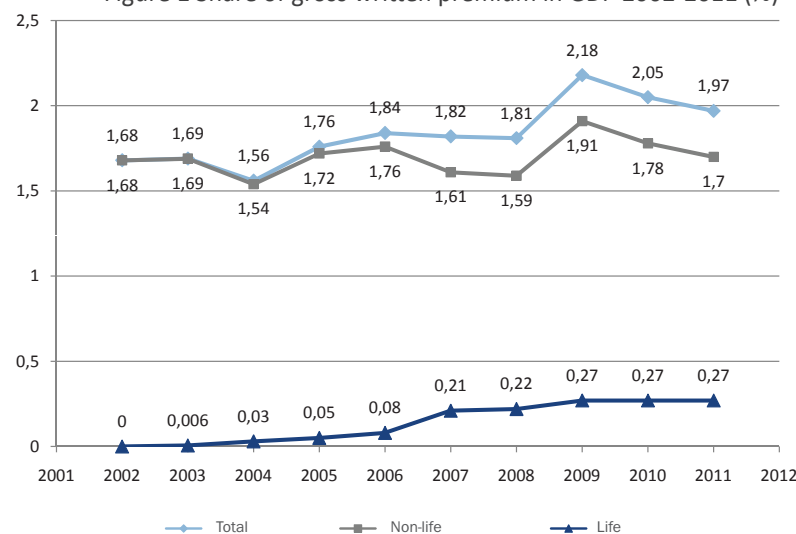
3.2. Gross written premium share in GDP

The share of gross written premium in GDP is one of the basic indicators used for assessment of insurance market development. Since 2002 this indicator has shown a growing trend, starting from 1,68% in 2002 to 2,18% in 2009. However, in 2010 and 2011 the global economic and financial crisis affected the decline of this indicator to 1,97%.

In 2011, the share of non-life written gross premium in GDP slightly declined and amounted to 1,70%, while the share of life insurance premium in GDP remained at the same level and amounted to 0,27%.

³ - The amount of gross written premium does not include the tax on insurance premium.

Figure 1 Share of gross written premium in GDP 2002-2011 (%)



Important feature of insurance market in Montenegro is ongoing development. However, according to the indicators, the level of development of the insurance sector in Montenegro is significantly lagging behind the markets of developed EU member countries (average share of gross premium in GDP amounted to 8,40% in 2010).

Ther following table shows the share of written gross premium in gross domestic product in neighbouring countries and in the European Union in 2010⁴.

Table 8 Share of written gross premium in GDP in Montenegro in comparasion to other countries in 2010 (%)

	Life	Non-life	Total
Great Britain	8,90	2,97	11,86
Switzerland	5,47	4,53	10,00
Germany	3,47	3,62	7,09
Slovenia	1,84	4,04	5,88
Austria	2,64	3,21	5,85
Spain	2,45	2,79	5,24
Czech Republic	1,91	2,24	4,15
Croatia	0,73	2,03	2,76
Bulgaria	0,31	1,89	2,20
Montenegro	0,27	1,78	2,05
Serbia	0,28	1,54	1,82
Romania	0,33	1,35	1,68

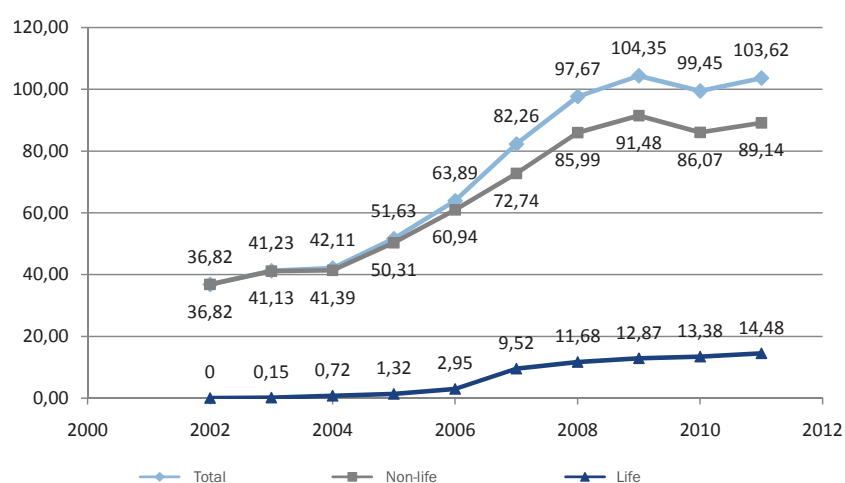
Source: Swiss Re (Sigma No2/2011) and ISA

⁴ - Since data relevant for other countries for 2010 are not available, the Table shows data on share of gross premium in GDP for 2010 for comparasion purposes.

3.3 Insurance density

Insurance density, as one of the most frequently used insurance market indicators, represents the amount of written gross premium per capita.

Figure 2 Written gross premium per capita 2002-2011 (€)



Written gross premium per capita in Montenegro in 2011 amounted to 103,62 euro, which remains significantly below the average of EU member countries in 2010 (around 2.037 euro).

The following Table shows insurance density in the neighbouring countries, and some EU countries in 2010⁵.

Table 9 Insurance density in neighbouring countries and EU countries in 2010 (\$)

	Total	Life	Non-life
Switzerland	6.724,00	3.678,20	3.045,80
Great Britain	4.298,20	3.223,30	1.074,90
Germany	2.842,90	1.391,90	1.450,90
Austria	2.648,20	1.194,10	1.454,10
Spain	1.584,90	741,10	843,80
Slovenia	1.353,30	423,90	929,40
Czech Republic	776,90	357,40	419,50
Croatia	379,20	100,80	278,40
Bulgaria	141,90	20,00	121,80
Montenegro ¹	132,07	17,77	114,31
Romania	121,90	23,90	98,10
Serbia	99,60	15,20	84,40

Source: Swiss Re and ISA

⁵ - Since the data relevant for other countries in 2011 are not available, the Table shows data on insurance density for 2010 for comparison purposes.

3.4 Insurance market concentration in Montenegro

3.4.1 Herfindahl-Hirschman index

The level of concentration of insurance market is established by Herfindahl-Hirschman index (HHI)⁶, and its value can range from 0 to 10.000. The value of index closer to zero indicates that market has a large number of companies of nearly the same size, i.e. it is a market with the high level of competition. The value of index closer to 10.000 indicates that the market is concentrated, i.e. there is monopoly in the market.

The range of Herfindahl-Hirschman index is:

- 0 – 1.000 → non-concentrated market (high level of competition);
- 1.000 – 1.800 → moderate concentration;
- 1.800 – 10.000 → concentrated market (monopoly).

For insurance market in Montenegro, in the period from 2009 to 2011, the value of HHI ranged within the limits of concentrated market, since the values of this index belong to the interval from 1.800 to 10.000. Still, from 2009 there has been present a trend that indicates the increase of competition i.e. the reduction of market concentration.

Table 10 Herfindahl-Hirschman index 2009-2011

Insurance company	2009.			2010.			2011.		
	Gross premium	Share %	HHI	Gross premium	Share %	HHI	Gross premium	Share %	HHI
Lovćen osiguranje	35.798.843,00	54,60	2.980,75	32.338.112,00	52,00	2.704,27	29.400.966	45,38	2.059,13
Sava Montenegro	10.873.448,00	16,74	274,99	9.687.203	15,58	242,67	10.340.373	15,96	254,70
Delta Generali osiguranje	5.050.714,00	7,78	59,33	5.838.992	9,39	88,17	7.146.911	11,03	121,67
Unika neživotno osiguranje	2.732.712,00	4,21	17,37	4.782.900	7,69	59,16	6.654.608	10,27	105,49
Grawe osiguranje	4.944.525,00	7,61	56,86	4.888.343	7,86	61,79	4.940.958	7,63	58,15
Swiss osiguranje	2.609.224,00	4,02	15,83	2.417.799	3,89	15,12	2.191.985	3,38	11,45
Unika životno osiguranje	1.181.250,00	1,82	3,25	1.309.126	2,11	4,43	1.420.639	2,19	4,81
Lovćen životna osiguranja							1.269.847	1,96	3,84
Merkur osiguranje	423.551,00	0,65	0,42	654.070	1,05	1,11	808.184	1,25	1,56
Wiener Städtische životno osiguranje	0,00	0,00	0	0,00	0,00	0,00	271.760	0,42	0,18
Delta Generali životno osiguranje	134.296,00	0,21	0,04	155.413	0,25	0,06	192.759	0,30	0,09
Atlas Life	78.173,00	0,12	0,01	113.623,00	0,18	0,03	152.708	0,24	0,06
Magnat osiguranje	1.743.472,00	1,72	7,07	0,00	0,00	0,00	-	0,00	0,00
TOTAL	65.570.208	100	3.415,93	62.185.580	100	3.176,81	64.791.699	100	2.621,12

6 - HHI is obtained when market shares of each insurance company are individually squared and mutually summed.

3.4.2 Share of insurance companies in written gross premium

The following Table shows written gross premium by companies:

Table 11 Written gross premium of insurance companies in 2011 (€)

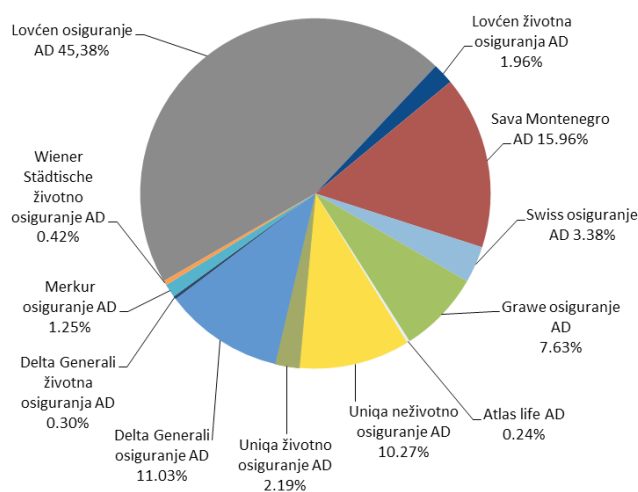
Insurance company	2011	Share %
Lovćen osiguranje AD	29.400.966	45,38
Sava Montenegro AD	10.340.373	15,96
Delta Generali osiguranje AD	7.146.911	11,03
Uniqa neživotno osiguranje AD	6.654.608	10,27
Grawe osiguranje AD	4.940.958	7,63
Swiss osiguranje AD	2.191.985	3,38
Uniqa životno osiguranje AD	1.420.639	2,19
Lovćen životna osiguranja AD	1.269.847	1,96
Merkur osiguranje AD	808.184	1,25
Wiener Städtische životno osiguranje AD	271.760	0,42
Delta Generali životna osiguranja AD	192.759	0,30
Atlas life AD	152.708	0,24
TOTAL	64.791.699	100

The largest share of 45,38% in the insurance market was generated by Lovćen osiguranje, which is by 4,62 percentage points lower to the previous year, when it amounted to 50% (31,092 mil.euro).

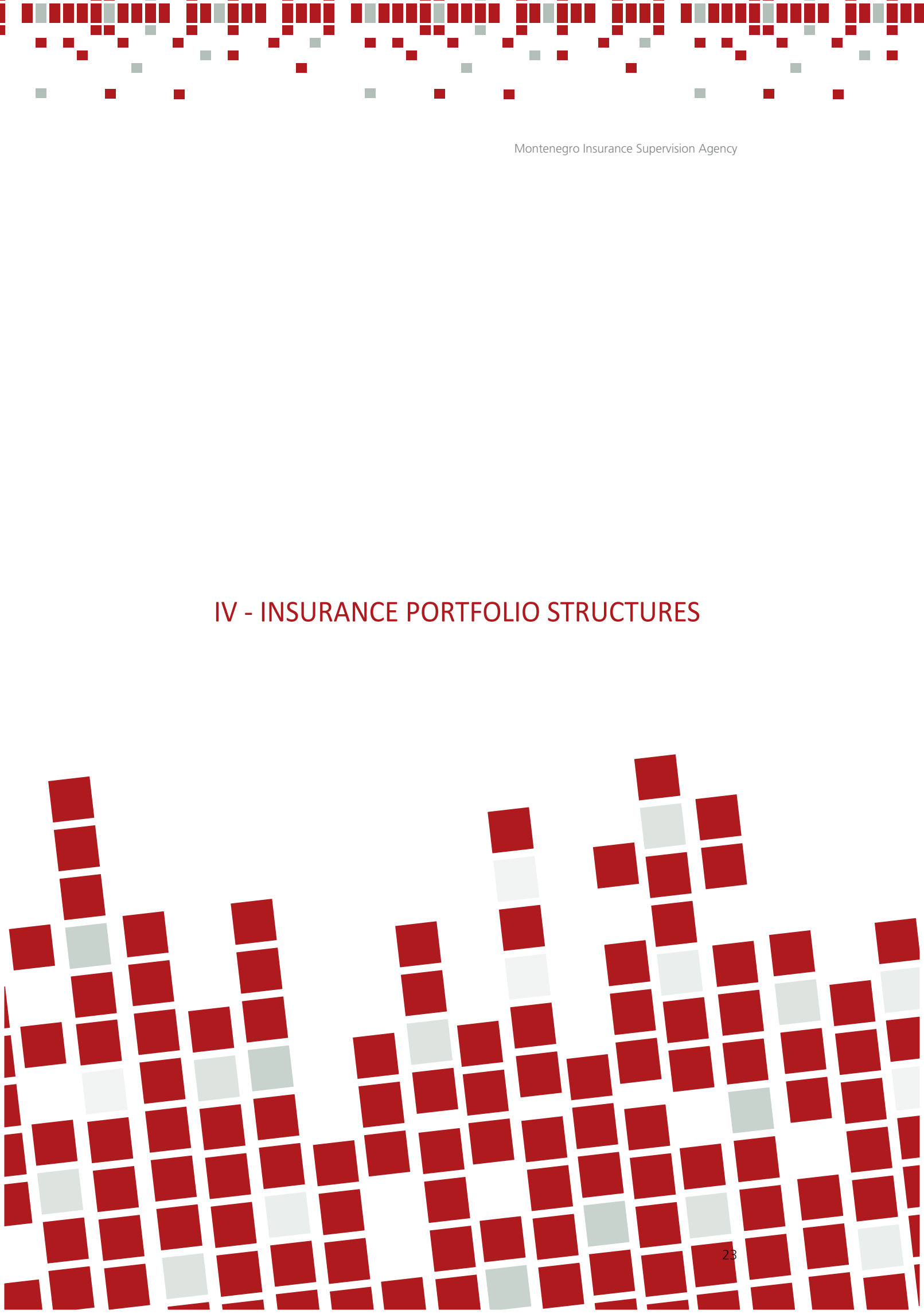
Two companies with the greatest written gross premium were Lovćen and Sava Montenegro whose market share amounted to 61,33% (39,741 mil.euro) in 2011 which is by 6,25 percentage points lower in relation to 2010, when it amounted to 67,58% (42,025 mil.euro).

Three companies with the greatest written gross premium were Lovćen, Sava Montenegro and Delta Generali osiguranje whose market share amounted to 72,36% (46,888 mil.euro) in 2011. Therefore, notable is the trend of reduction of concentration in the insurance market of Montenegro, which is evidenced by data that in the previous year of 2010 the market presence of the three companies (Lovćen, Sava Montenegro and Delta) with greatest gross written premium amounted to 76,97% (47,864 mil.euro).

Figure 3 Market share of insurance companies in 2011 (%)







IV - INSURANCE PORTFOLIO STRUCTURES



IV - INSURANCE PORTFOLIO STRUCTURES

4.1 Written gross insurance premium: life and non-life insurance

Insurance market in Montenegro in 2011 was characterised by the continuation of the trend of low level of life insurance premium and dominant share of non-life insurance premium. In the structure of written gross premium in 2011, the share of non-life insurance slightly declined and amounted to 86,02%, while the share of life insurance slightly increased from 13,45% in 2010 to 13,98% in 2011.

Table 12 Insurance premium structure in 2010 and 2011

	2010		2011		Index 2011/2010
	Premium (€)	Share (%)	Premium (€)	Share (%)	
Life insurance	8.366.637	13,45	9.056.856	13,98	108,25
Non-life insurance	53.818.943	86,55	55.734.843	86,02	103,56
TOTAL	62.185.580	100	64.791.699	100	104,19

In Montenegrin insurance market, the share of non-life insurance is still notable as dominant, but increasing trend of the share of life insurance has become increasingly notable starting from 2003. In the period from 2004 to 2011, the non-life insurance premium grew on annual level at the average rate of 10,73%, while the life insurance grew at the average rate of 108,06%. In 2011, non-life insurance premium increased by 3,56%, while the life insurance premium increased by 8,25% in relation to the previous year.

Figure 4 Gross premium trend: life vs. non-life 2002-2011

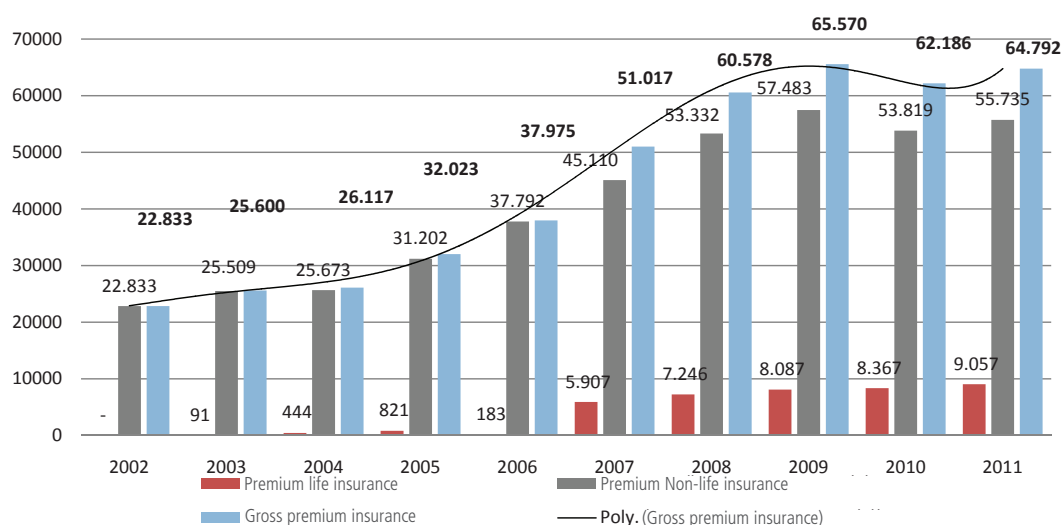
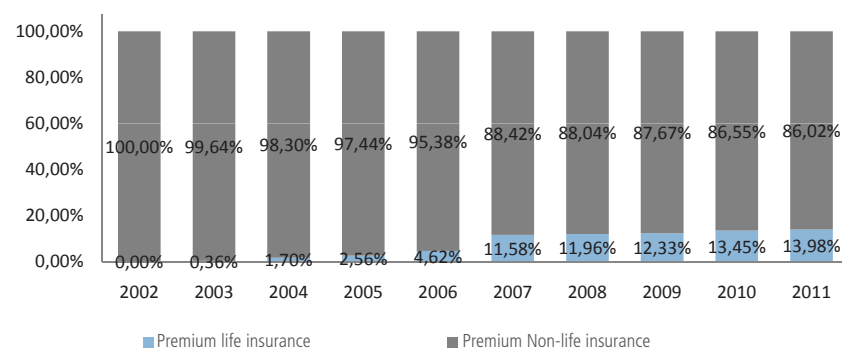


Figure 5 Gross premium structure: life v.s non-life 2002-2011



4.2 Structure of written gross premium by insurance classes

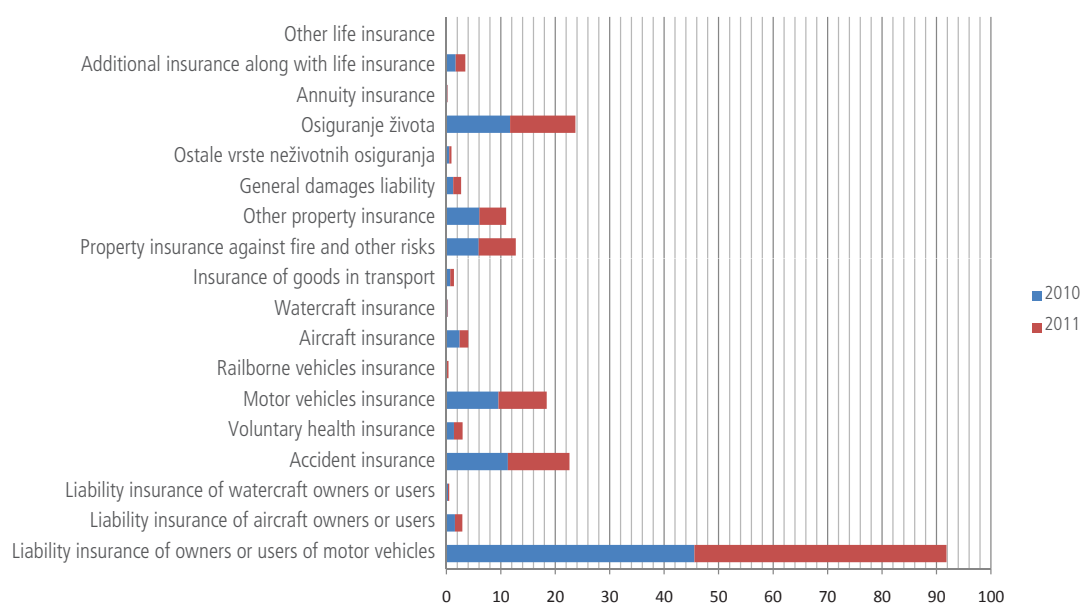
Analysis of written gross insurance premium by insurance classes in 2011 shows a slight change in relation to the previous year. The most significant change is related to the growth of written gross life insurance premium by 8,25%, the growth of property insurance against fire and other risks by 19,74% and the growth of general damages liability insurance by 20,07%.

Table 13 Structure of insurance portfolio by insurance classes in 2010 and 2011

Class of insurance	2010		2011		Index
	Amount	Share (%)	Amount	Share (%)	2011/2010
Liability insurance of owners or users of motor vehicles	28.332.362	45,56	30.011.616	46,32	105,93
Liability insurance of aircraft owners or users	947.637	1,52	900.951	1,39	95,07
Liability insurance of watercraft owners or users	156.918	0,25	168.005	0,26	107,07
Accident insurance	6.996.508	11,25	7.346.044	11,34	105,00
Voluntary health insurance	847.665	1,36	1.031.631	1,59	121,70
Motor vehicles insurance	5.934.059	9,54	5.741.168	8,86	96,75
Railborne vehicles insurance	58.000	0,09	186.740	0,29	321,97
Aircraft insurance	1.498.607	2,41	1.033.289	1,59	68,95
Watercraft insurance	104.822	0,17	63.012	0,10	60,11
Insurance of goods in transport	416.415	0,67	455.917	0,70	109,49
Property insurance against fire and other risks	3.680.142	5,92	4.406.629	6,80	119,74
Other property insurance	3.765.698	6,06	3.184.463	4,91	84,57
General damages liability	775.310	1,25	930.907	1,44	120,07
Other non-life insurance	304.801	0,49	274.469	0,42	90,05
Total non-life insurances	53.818.943	86,55	55.734.843	86,02	103,56
Life insurance	7.259.656	11,67	7.792.446	12,03	107,34
Annuity insurance	72.962	0,12	73.656	0,11	100,95
Additional insurance along with life insurance	1.034.019	1,66	1.175.535	1,81	113,69
Other life insurance	0	0,00	15.220	0,02	
Total life insurances	8.366.637	13,45	9.056.856	13,98	108,25
TOTAL	62.185.580	100	64.791.699	100	104,19

In the structure of gross premium, compulsory insurance still had the greatest share of 48,57%, which went up by 5,70% in 2011. The premium of vehicle own damage insurance in 2011 declined by 192.891 euro, i.e. 3,25%, while the accident insurance premium grew by 349.536 euro, i.e 5,00%.

Figure 6 Structure of gross insurance premium by insurance classes in 2010 and 2011 (%)



In 2011 the total vehicle damage premium (motor vehicles, aircrafts, watercrafts, railborne vehicles) decline in relation to 2010 by 7,53%, which is mostly the result of the reduction of watercraft insurance premium by 39,89% and the reduction of aircraft insurance premium by 31,05%. At the same time, the voluntary health insurance premium grew by 21,70%.

Regarding the class of life insurance, the greatest premium growth was generated by additional insurance with life insurance by 13,69%.

4.3 Compulsory insurance

The Law on Compulsory Transport Insurance (OGRM 46/07) prescribes the class of compulsory insurance, as follows:

- Accident insurance of passengers in public traffic;
- Third party liability insurance of motor vehicle owners or users;
- Third party liability insurance of aircraft owners or users and
- Third party liability insurance of watercraft owners or users.

The total compulsory premium in 2011 amounted to 31,469 mil.euro which is by 5,70% higher in relation to 2010. In 2011, the share of gross premium of compulsory insurance in the gross premium of non-life insurance amounted to 56,46%, and 48,57% in the total written gross premium. Five companies conducted compulsory insurance business, of which the greatest share in gross premium of compulsory insurance was generated by Lovćen osiguranje with 45,06%.

Table 14 Compulsory insurance premium by companies in 2011

Insurance company	Premium (€)	Share (%)
Lovćen osiguranje	14.178.877	45,06
Sava Montenegro	6.456.048	20,52
Delta Generali osiguranje	5.070.212	16,11
Uniqa neživotno osiguranje	4.745.255	15,08
Swiss osiguranje	1.019.495	3,24
TOTAL	31.469.886	100

The auto liability insurance has the greatest share in the structure of compulsory insurance premium and it makes 95,36% of the total compulsory insurance premium in 2011. The auto liability insurance premium in 2011 amounted to 30,012 mil.euro and it went up in relation to 2010 by 5,92%, when it amounted to 28,332 mil.euro. The growth in auto liability insurance premium was primarily caused by the growth of premium rate by 6,04%. The greatest share in auto liability premium was generated by: Lovćen osiguranje with 43,22%, Sava Montenegro with 20,96% and Delta Generali osiguranje with 16,79%.

Table 15 Share of auto liability written gross premium for 2010 by insurance companies

Insurance company	Written gross premium AO (€)	Share (%)
Lovćen osiguranje	12.970.157	43,22
Sava Montenegro	6.290.038	20,96
Delta Generali osiguranja	5.037.964	16,79
Uniqa neživotno osiguranje	4.696.432	15,65
Swiss osiguranje	1.017.025	3,39
TOTAL	30.011.616	100

4.4 Life insurance

Life insurance makes the basic development factor of insurance market of Montenegro.

Life insurance in Montenegro continued the growing trend. Life insurance gross written premium in 2011 amounted to 9,057 mil.euro and increased by 690.219 euro, or 8,25% in relation to 2010 when it amounted to 8,367 mil.euro. The number of life insured persons in 2011 amounted to 33.566, which is by 4,27% higher in relation to previous year.

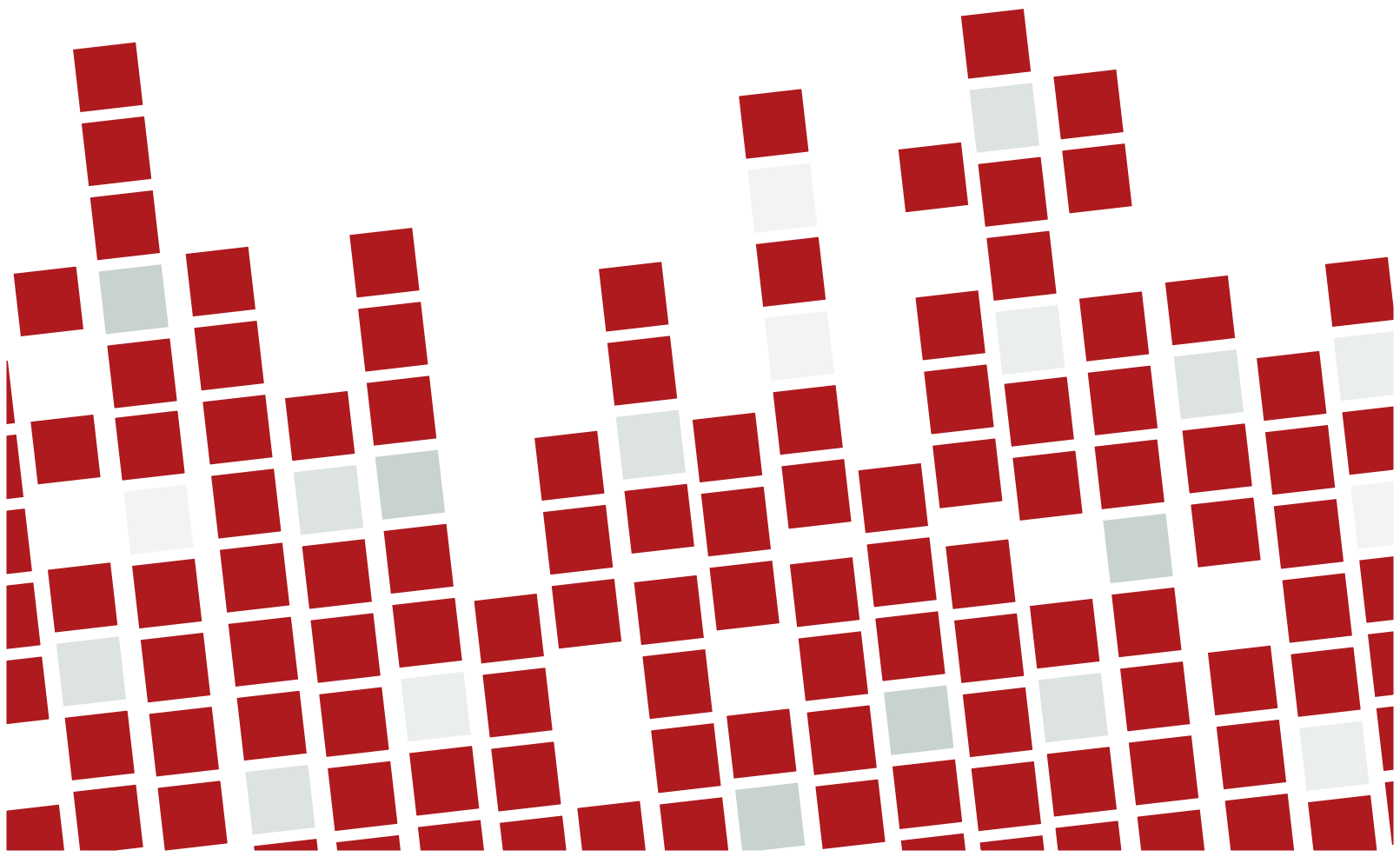
Table 16 Breakdown of the number of life insured persons in 2010 and 2011

Total number of insured persons		
2010	2011	Change 2011/2010 in %
32.190	33.566	4,27

According to the analysis of life insurance market, notable is the decline in the number of cancelled life insurance contracts, which resulted in the speeding up of the growth rate of life insurance gross premium in 2011.

6.611 new life insurance policies were contracted in 2011. The number of cancelled policies amounted to 3.647 as of 31 December 2011 and it went down by 19,69% in relation to 2010 when it amounted to 4.541. The number of reduced policies in 2011 went down in relation to 2010 (508) and amounted to 353.

V - ASSETS STRUCTURE





V - ASSETS STRUCTURE

The value of total asset for all insurance companies, as of 31 December 2011, was 135,338 mil.euro, which accounts for the increase of 11% if compared to the value of total assets as of 31 December 2010⁷. The long-term financial placements have the highest share in the total assets of 38,46%, followed by the short-term placements with 28,81% and receivables having 13,62%.

Table 17 Structure of Assets of Insurance Companies as of 31 December 2010 and 31 December 2011

	31. 12. 2010.		31. 12. 2011.		Index 2011/2010
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Intangible assets	566.701	0,46	610.143	0,45	107,67
Real estates, plants and equipment directly related to conduct of insurance activities	13.658.352	11,20	11.231.315	8,30	82,23
Long-term financial placements	32.544.394	26,69	52.055.721	38,46	159,95
Short-term financial placements	34.835.115	28,57	38.985.398	28,81	111,91
Cash and cash equivalents	13.217.889	10,84	1.889.564	1,40	14,30
Receivables	16.614.107	13,63	18.426.778	13,62	110,91
Share of reinsurers in technical provisions	4.162.777	3,41	5.110.603	3,78	122,77
Prepayments and accrued income	6.026.023	4,94	6.608.707	4,88	109,67
Other	304.084	0,25	420.095	0,31	138,15
TOTAL	121.929.441	100	135.338.325	100	111,00

Regarding the assets forms in 2011, the long-term financial placements evidenced the highest growth by 59,95 % if compared to the previous year. Namely, the insurance companies continued aligning the level conformity placements and liabilities arising from insurance contracts started in 2010. Furthermore, investments into the bonds issued by Montenegro on the EU market were increased, as well as other securities (as of 31 Decemeber 2011, seven insurance companies invested in the government bonds in the amount of 18,183 mil.euro, which is 34,92% of total long-term financial placements at the insurance market level).

Short-term financial placements recorded a growth of 11,91%, however the share thereof in the total assets remained nearly at the same level. Growth in short-term financial placements is predominantly generated by a growth of short-term fixed-term deposits of companies engaged in non-life insurance operations.

In 2011, the short-term receivables grew by 10,91%, because of increased number of damages compensation claims from co-insurers and reinsurers, as well as increased number of other claims.

The category "other" of the assets is mainly relating to the postponed tax assets. The share of reinsurers in technical reserves records a growth of 22,77%, due to the equal growth in written gross premium, reinsurance premium and the gross of technical reserves⁸.

Total cash and cash equivalents records a decline of 85,70% if compared to the previous year, and this is due to increase of capital of one company that recorded its capital assetss on its current account on 31 December 2010.

7 - Data referring to 2010 have been presented according to the new balance forms of the insurance companies used since 1 January 2011 as per Rulebook on the Chart of Accounts for Insurance Companies

8 - (the growth of gross of technical reserves by 7,97%, the growth of reinsurance premium by 3,86%, written gross premium by 4,19%)

Figure 7 Breakdown of assets of insurance companies on 31 December 2010 and 31 December 2011 (%)

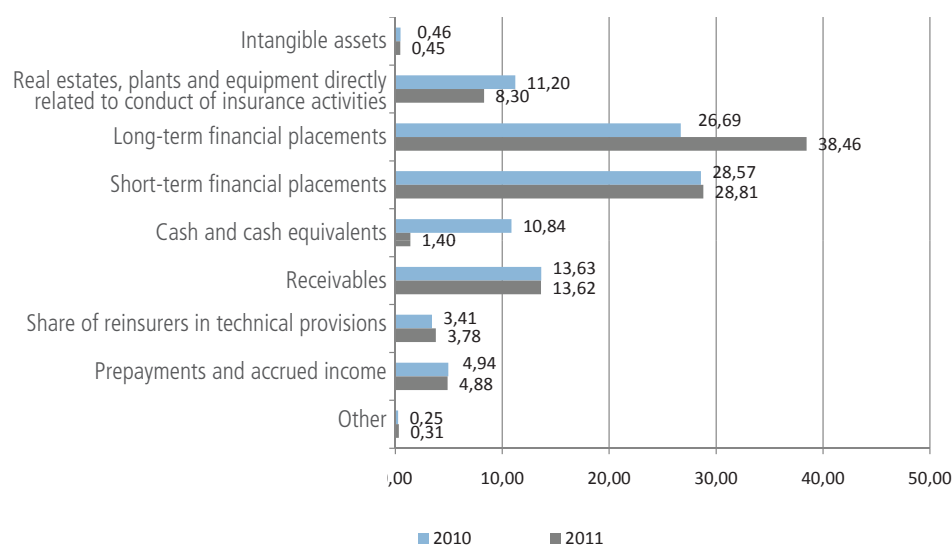
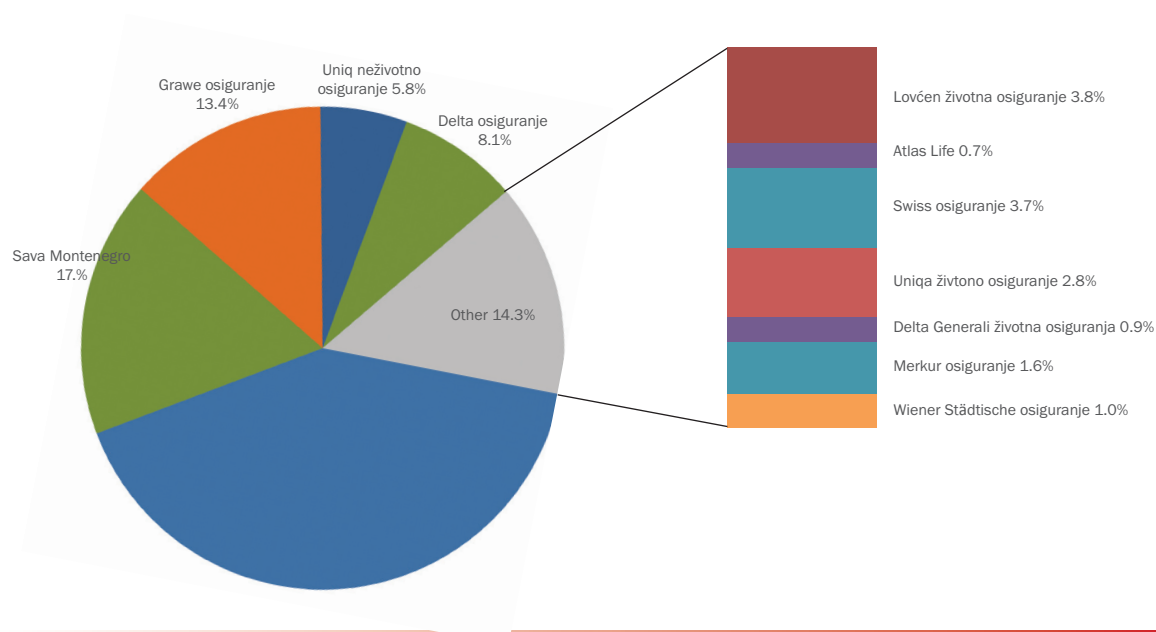


Table 18 Share of insurance company in total assets of insurance sector on 31 December 2010 and 31 December 2011 (%)

	31. 12. 2010.	31. 12. 2011.	Change %
Lovćen osiguranje	46,70%	41,22%	-5,48%
Sava Montenegro	18,80%	17,15%	-1,65%
Grawe osiguranje	12,26%	13,43%	1,17%
Delta Generali osiguranje	6,52%	8,10%	1,58%
Uniqa neživotno osiguranje	4,77%	5,77%	1,00%
Lovćen životna osiguranja		3,79%	3,79%
Swiss osiguranje	4,43%	3,72%	-0,71%
Uniqa životno osiguranje	2,78%	2,80%	0,02%
Merkur osiguranje	1,26%	1,55%	0,29%
Wiener Städtische životno osiguranje	0,66%	0,97%	0,30%
Delta Generali životna osiguranja	0,82%	0,80%	-0,02%
Atlas life	0,98%	0,69%	-0,29%
TOTAL	100,00%	100	-

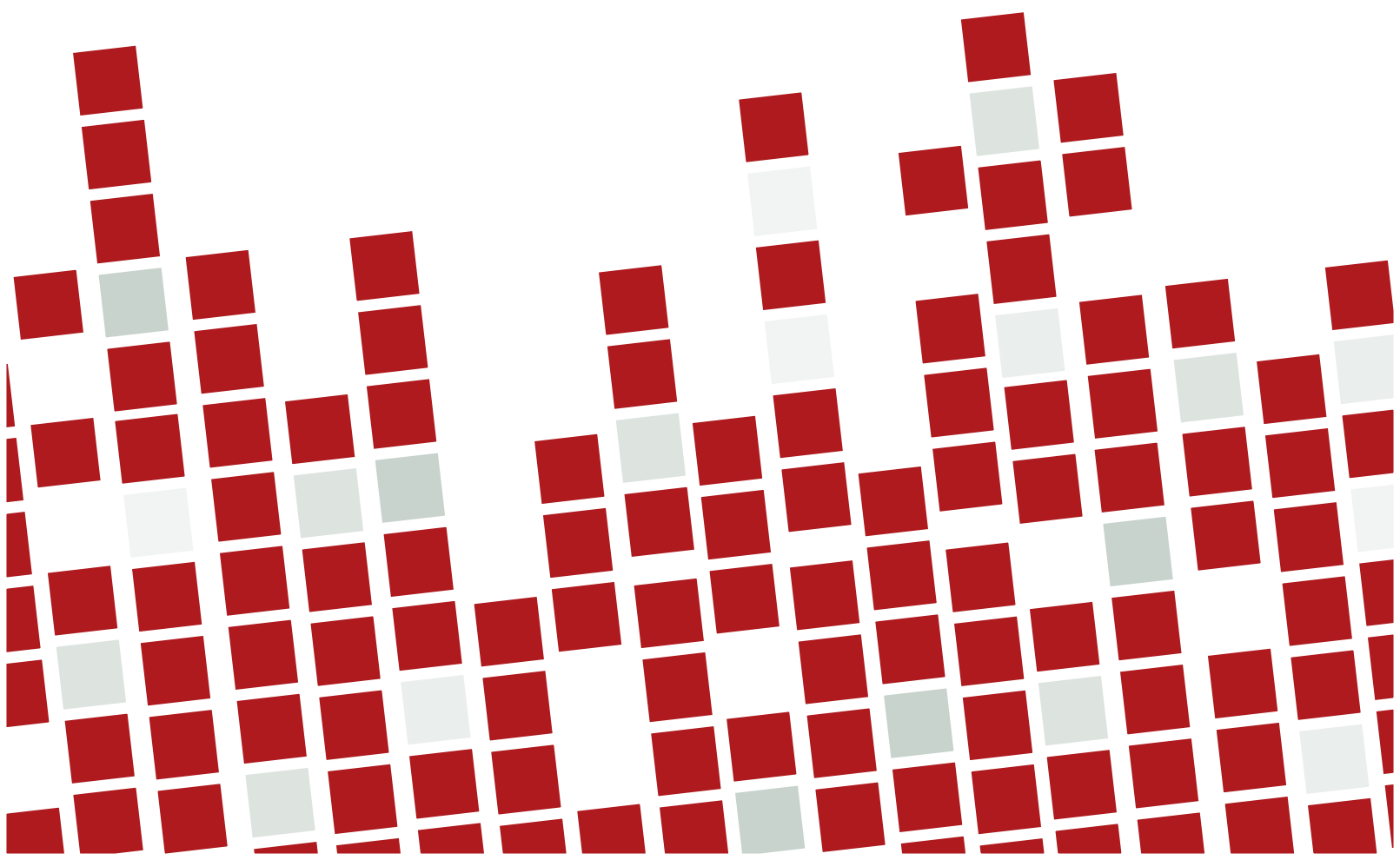
Considering the share of individual companies in the total assets of the insurance sector, it can be noted that Lovćen osiguranje continues to have the largest share of 41,22%, followed by Sava Montenegro with 17,15% and Grawe osiguranje with 13,43%. If compared to 2010, Lovćen osiguranje has recorded a decline of the share in total assets of companies by 5,48 percentage points (in 2010, Lovćen osiguranje conducted non-life and life insurance affairs until 21 December 2010 when it acquired a consent to the transfer of the life insurance portfolio to a new company Lovćen životna osiguranja), while Grawe osiguranje, Delta Generali osiguranje and Uniqa neživotno osiguranje recorded increase of share from 1 to 1,58 percentage points.

Figure 8 Share of assets of insurance companies in total assets of insurance sector on 31 December 2011 (%)





VI - STRUCTURE OF LIABILITIES AND CAPITALS





VI - STRUCTURE OF LIABILITIES AND CAPITALS

Value of total liabilities and capital for all insurance companies in Montenegro, as of 31 December 2011, was 135,338 mil.euro, which represents the increase of 11% if compared to the value of total liabilities and capital on 31 December 2010, when it was 121,929 mil. euro.

Table 19 Structure of Liabilities and Capital of insurance companies
on 31 December 2010 and 31 December 2011

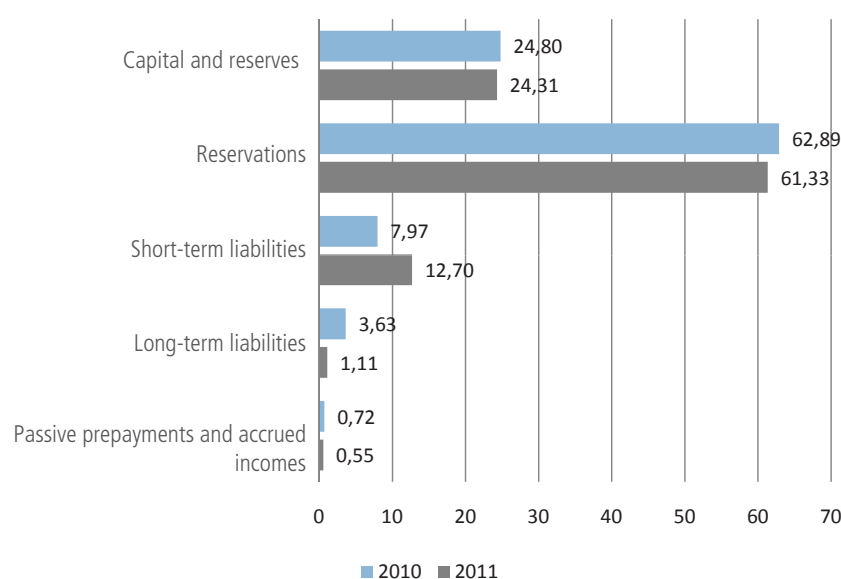
	31. 12. 2010.		31. 12. 2011.		Index 2011/2010
	Amount (€)	Share (%)	Amount (€)	Share (%)	
Capital and reserves	30.236.042	24,80	32.903.107	24,31	108,82
Reservations	76.680.769	62,89	83.000.681	61,33	108,24
Short-term liabilities	9.713.517	7,97	17.185.861	12,70	176,93
Long-term liabilities	4.426.561	3,63	1.502.042	1,11	33,93
Passive prepayments and accrued incomes	872.552	0,72	746.634	0,55	85,57
TOTAL	121.929.441	100	135.338.325	100	111,00

Increase of the category “capital and reserves” in the insurance companies in 2011 by 8,82%, i.e 2,667 mil.euro, generates from the achieved positive financial result of 1,749 mil. euro, as well as from the adjustments in revaluation reserves. In order to cover their losses, four insurance companies increased their capital in the amount of 1,550 mil.euro.

The category “reservations” includes gross of technical provisions of the insurance companies and other pension reservations needed for pensions, jubilee award, severances, bad deals, etc. Technical provisions of companies were increased by 6,074 mil.euro or by 7,97% in 2011. Mathematical reserve had the highest growth within the technical reserves of 32,00% if compared to the previous year, which is a consequence of growth on the side of life insurance premiums over the previous years. Furthermore, the risk equalization reserves by €748.487 (RER is created for all insurance classes of non-life insurance based on the standard deviation of annual relevant loss ratio from average RLR during the observed period. All five companies involved in non-life insurance created RER in 2011).

Increase of short-term liabilities in the liabilities and capital of balance sheet by 76,93% mostly refers to the growth in liabilities arising from financing, while it also refers to the growth of liabilities arising from direct insurance activities (liabilities toward the insured, brokers, and reinsurance and co-insurance premiums liabilities, etc).

Figure 9 Breakdown of Liabilities and Capital of insurance companies on 31 December 2010 and 31 December 2011 (%)



6.1 Technical provisions

According to the Law on Insurance, insurance companies are obliged to establish technical provisions that are used to cover liabilities arising from insurance operations at the end of every accounting period.

Technical provisions of non-life insurance companies include provisions for unearned premiums, outstanding claims, and risk equalization reserves, while the technical provisions of life insurance companies include unearned premiums, mathematical reserve, outstanding claims and bonuses.

The insurance companies create unearned premiums for those insurance classes where the insurance coverage lasts after the end of accounting period.

Outstanding claims are calculated at the level of estimated amount of liabilities that the insurance company has to pay according to insurance contracts where the insured event arose prior to the accounting period including all costs relating to processing and paying these claims. The outstanding claims include liabilities for incurred and reported but not settled claims (RBNS) and incurred but not reported claims (IBNR) until the end of accounting period for which is necessary to establish the outstanding claim.

The insurance companies create the risk equalization reserves based on the standard deviations of relevant loss ratio on annual basis from average relevant loss ratio for each class of non-life insurance during the observed period.

Mathematical reserve is established to cover future liabilities as per long-term contracts of life insurance and is calculated according to net prospective method or gross (Zillmer) method as a difference between the present value of future liabilities of the insurer stipulated by insurance contract and the present value of future liabilities of policy holder.

The insurance company is obliged to establish the bonus reserves along by the mathematical reserve, if the life insurance policy holder accepts to risk participating in depositing and investing technical provisions funds.

Technical reserves at the level of the insurance sector were 82,270 mil.euro as of 31 December 2011, which represents the increase of 7,97% compared to 31 December 2010.

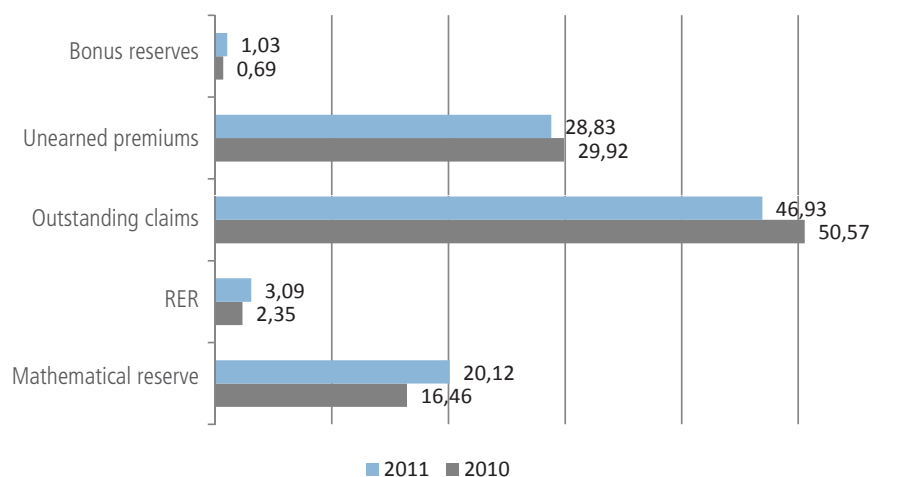
Table 20 Structure of technical provisions of insurance companies
on 31 December 2010 and 31 December 2011

	2010		2011		Index 2011/2010
	Amount (€)	Share %	Amount (€)	Share %	
Outstanding claims	38.531.768	50,57	38.605.564	46,93	100,19
Unearned premiums	22.801.009	29,92	23.719.568	28,83	104,03
Mathematical reserve	12.540.207	16,46	16.554.850	20,12	132,01
RER	1.794.004	2,35	2.542.491	3,09	141,72
Bonus reserves	528.942	0,69	847.800	1,03	160,28
TOTAL	76.195.930	100	82.270.274	100	107,97

As of 31 December 2011, just as in previous year, the highest share in the structure of technical provisions of the insurance companies was the one of outstanding claims and amounted to 38,605 mil.euro (46,93% of total technical provisions), followed by the unearned premiums that amounted to 23,719 mil.euro (28,83% of total technical provisions).

As of 31 December 2011, the bonus reserves were 848 thousn. euro and recorded the highest growth of 60,28%, if compared to 31 December 2010, i.e. 1,03% of the total technical provisions. Mathematical reserves recorded a growth as well by 32,01% and amounted to 16,555 mil.euro. The growing trend of risk equalisation reserves of insurance companies that started in previous years (since the new insurance companies have been established) continued on 31 December 2011 and amounted to 2,542 mil.euro, i.e. 3,09% of total technical provisions.

Figure 10 Structure of technical provisions of insurance companies
on 31 December 2010 and 31 December 2011 (%)



The faster growth in technical provisions than the gross premium indicates that the insurance companies assess more realistic these reserves which is mostly the result of controls of adequacy of resources allocation for technical provisions conducted by Insurance Supervision Agency. The latter significantly protects interests of insurers and indicates on results of activities performed to stabilize and organize insurance market. The Figure to follow shows the growth of technical provisions and total premium over the course of the last five years, using 2006 as the base year.

Figure 11 Trend of the total premium and technical provisions for the period 2006-2011

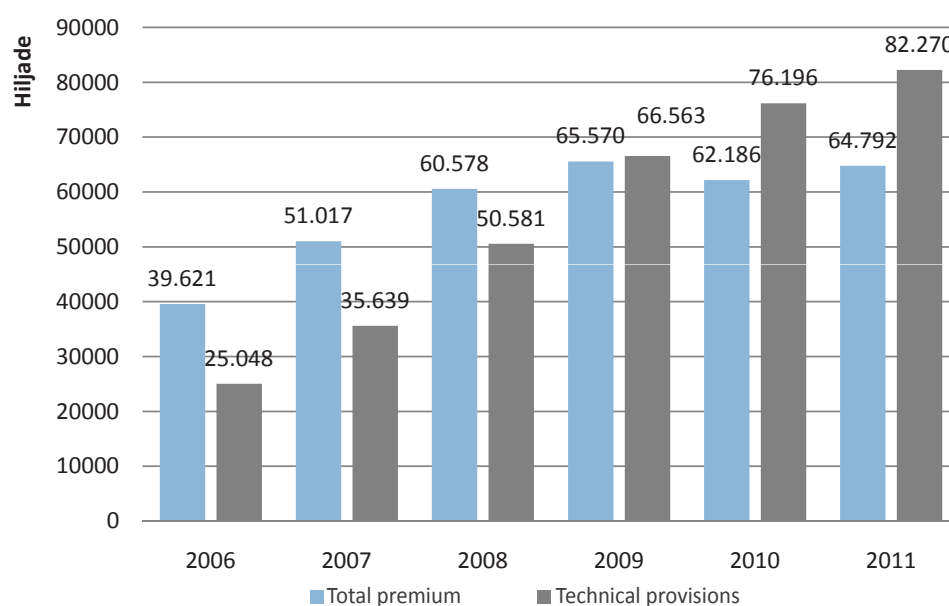
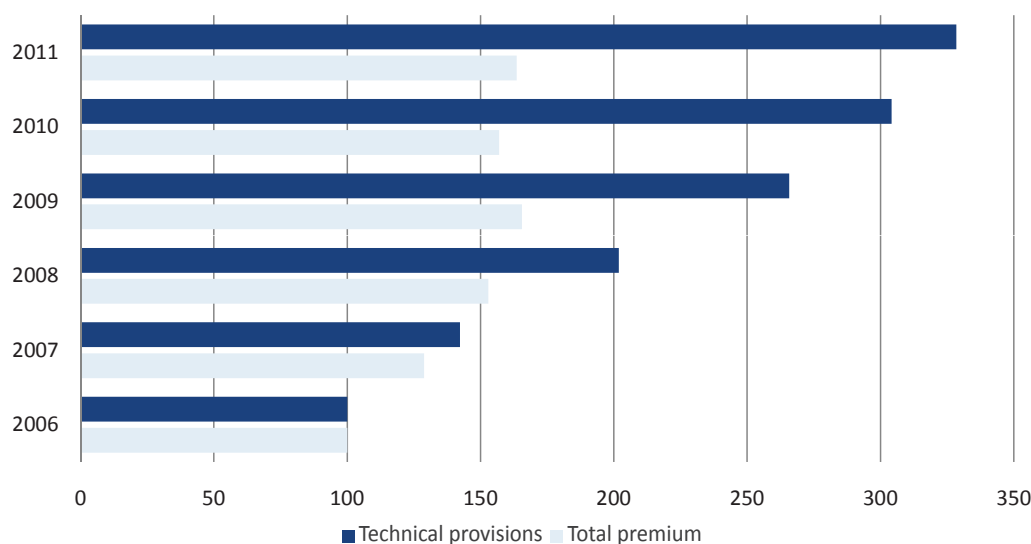
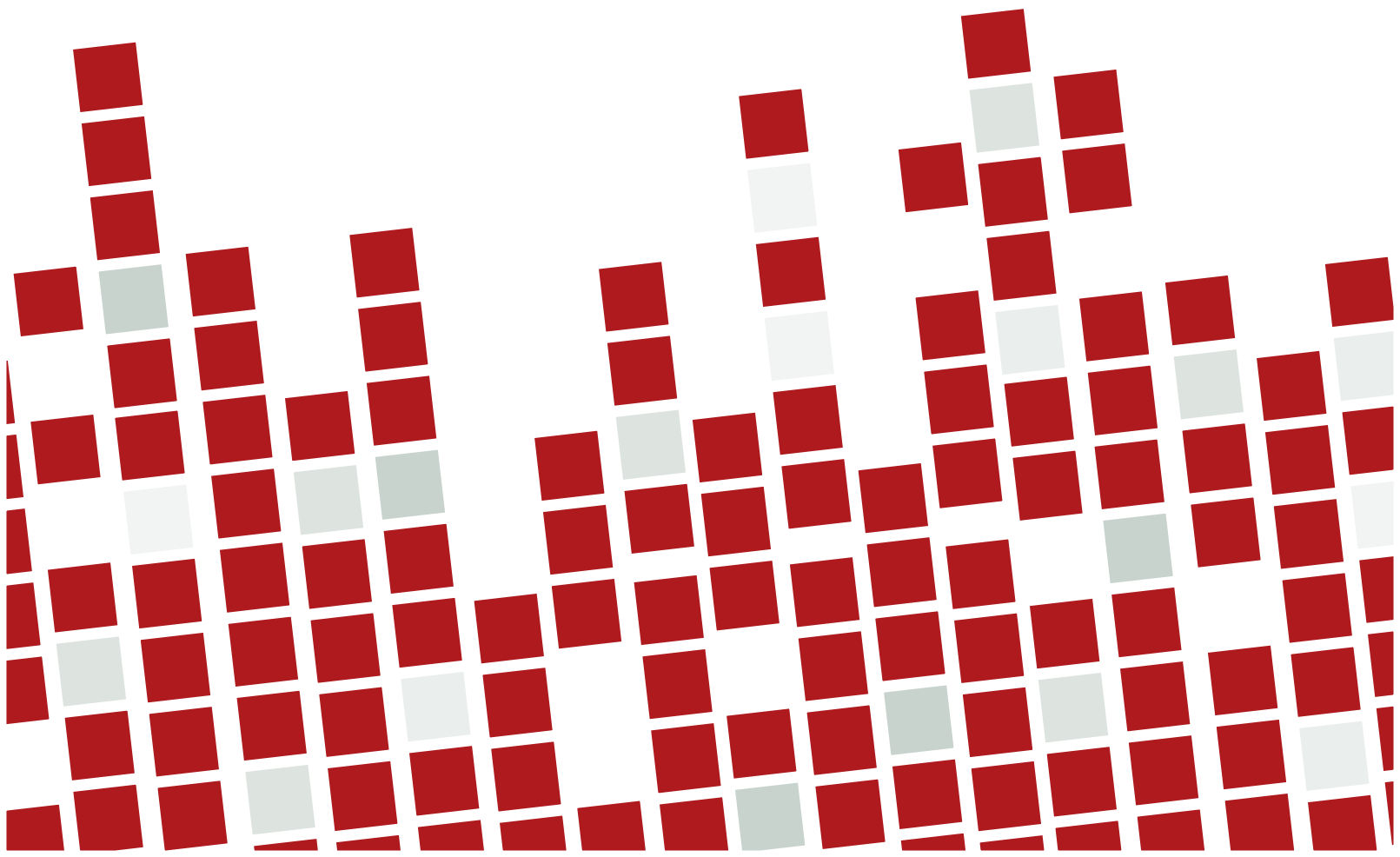


Figure 12 Trend of total premium and technical provisions indices for the period 2006-2011 (2006=100)



VII DEPOSITING AND INVESTING
TECHNICAL PROVISIONS FUNDS
AND GUARANTEE RESERVE FUNDS





VII DEPOSITING AND INVESTING TECHNICAL PROVISIONS FUNDS AND GUARANTEE RESERVE FUNDS

7.1 Depositing and Investing Technical Provision Funds

The Rulebook on Restrictions Related to Depositing and Investing Technical Provisions Funds and Guarantee Reserve Fund of Insurance Company define the forms of properties where the insurance companies can deposit and invest the technical provision funds and guarantee reserve funds and restrictions concerning total and individual depositings and investments.

- According to the Law on Insurance, the companies are obliged to deposit and invest technical provisions funds in the following forms of properties:
- Securities issued by Montenegro, central banks and governments of foreign countries rated at least “A”, or its equivalents by widely-accepted, internationally recognized rating agencies;
- Bonds or other debt securities traded on the organized securities market in Montenegro;
- Bonds, or other debt securities not traded on the organized securities market, if the issuer is a legal entity with registered office in Montenegro;
- Shares traded on the organized securities market in Montenegro;
- Deposit from banks having their registered offices in Montenegro.

The Rulebook on Restrictions Related to Depositing and Investing Technical Provisions Funds and Guarantee Reserve Fund of Insurance Company defines types of placements of reserve funds and restrictions concerning investments into stipulated asset types, depending whether the insurance company is engaged in life or non-life insurance. In addition to the forms stipulated by the Law on Insurance, the Rulebook stipulates that technical reserve funds are deposited and invested in the following forms:

- Immovable property registered with immovable property cadaster in Montenegro if their purchase price is determined based on the appraisal of an authorized appraiser and if generate revenue or if revenue may be expected;
- Debt securities issued by another country, central bank of another country, or international financial organization, or securities guaranteed for by another country or central bank of another country, if their credit awarded by the rating agencies Standard & Poor’s or Fitch – IBCA is not less than “BBB”, or “Baa3” if awarded by Moody’s;
- Debt securities of foreign legal entities traded on the stock exchange market in the countries where they are registered, provided that their credit rating awarded by the rating agencies Standard & Poor’s or Fitch-IBCA is not less than “BBB”, or “Baa3” If awarded by Moody’s;
- Shares of foreign legal entities, provided that they have been listed on the stock exchange for at least last two years and if their credit rating awarded by the rating agencies Standard & Poor’s or Fitch – IBCA is not less than “BBB”, or “Baa3” If awarded by Moody’s.

As far as the compliance with the Law and the Rulebook is concerned, the Insurance Supervision Agency controls depositing and investing of net technical provisions of insurance companies, which amounted to 77,159 mil.euro as of 31 December 2011. Gross technical provisions were 82,270 mil.euro as of 31 December 2011 for the entire insurance sector, which shows that the share of reinsurers in technical provisions was 6,21% (or 5,111 mil.euro).

Table 21 Structure of net and gross technical provisions of insurance companies on 31 December 2011

	Net technical provisions		Gross technical provisions	
	Amount (€)	Share (%)	Amount (€)	Share (%)
Outstanding claims	35.949.505	46,59	38.605.564	46,93
Unearned premium	21.351.079	27,67	23.719.568	28,83
Mathematical reserve	16.468.795	21,34	16.554.850	20,12
RER	2.542.490	3,30	2.542.491	3,09
Bouns reserves	847.800	1,10	847.800	1,03
TOTAL	77.159.670	100	82.270.274	100

Figure 13 Structure of gross and net technical provisions of insurance companies on 31 December 2011 (thousand €)

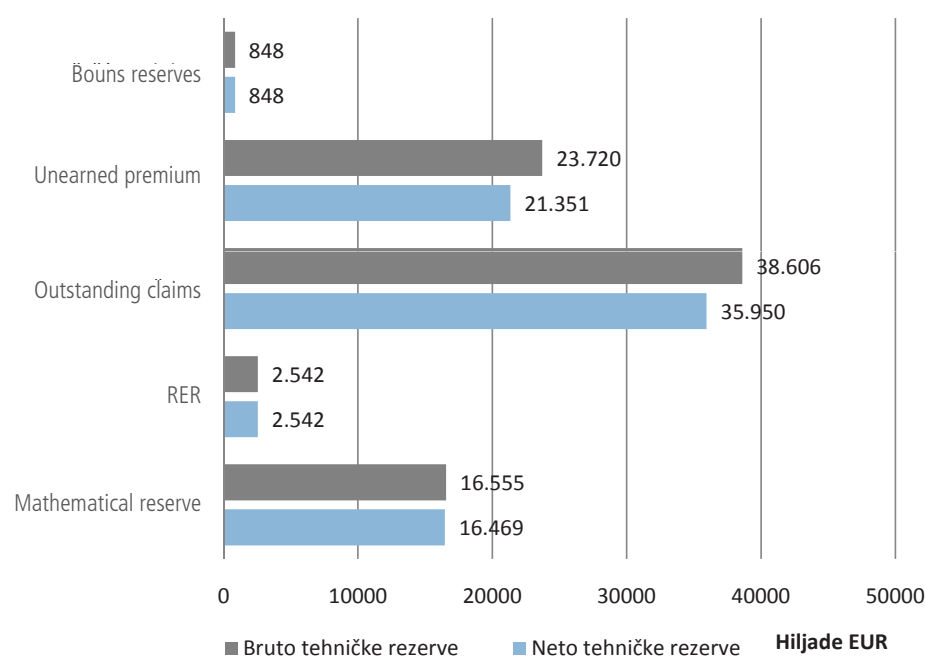


Table 22 Gross and net technical provisions by insurance groups on 31 December 2011(€)

	Net technical provisions		Gross technical provisions	
	Amount (€)	Share	Amount (€)	Share
Life insurance	18.050.237	23,39	18.293.267	22,24
Non-life insurance	59.109.433	76,61	63.977.007	77,76
Total	77.159.670	100	82.270.274	100

As per type of business, the insurance companies engaged in life insurance operations, placed 17.984.904 euro of net technical provisions (or 99,64% of total net technical provisions) in stipulated asset forms, while the amount of deposited and invested net technical provisions in compliance with restrictions stipulated by the Rulebook was 17.969.075 euro of the net technical provision (or 99,55% of the total net technical provisions for life insurance). During the observed period the insurance companies, engaged in non-life-insurance have invested technical provision funds in the amount of 53.653.261 euros (90,77% of the total net technical provisions of non-life insurance) in compliance with the stipulated asset forms and not complying with the restrictions stipulated by the Rulebook, while they invested 53.295.440 euro (90,16% of the total net technical provisions of non-life insurance) when complying with the stipulated asset forms and restrictions stipulated by the Rulebook.

Table 23 Structure of deposited and invested technical provisions funds into stipulated asset forms as of 31 December 2011, not complying with the restriction in compliance with the Rulebook

	Life insurance		Non-life insurance		Total	
	Amount (€)	Share %	Amount (€)	Share %	Amount (€)	Share %
Deposit	6.290.507	34,98	30.861.016	57,52	37.151.523	51,86
Government bonds	10.251.606	57,00	5.239.149	9,76	15.490.754	21,62
Investment properties	584.310	3,25	10.466.212	19,51	11.050.522	15
Shares	334.223	1,86	4.121.243	7,68	4.455.466	6,22
Bonds	150.000	0,83	2.200.000	4,10	2.350.000	3,28
Cash	374.258	2,08	765.641	1,43	1.139.900	1,59
Total	17.984.904		53.653.261		71.638.165	100

Table 24 Structure of deposited and invested net technical provision funds of companies in line with the restrictions stipulated by the Rulebook as of 31 December 2011

	Life insurance		Non-life insurance		Total	
	Amount (€)	Share %	Amount (€)	Share %	Amount (€)	Share %
Shares	334.223	1,86	4.121.243	7,73	4.455.466	6,25
Government bonds	10.251.606	57,05	5.239.149	9,83	15.490.754	21,74
Bonds	150.000	0,83	2.200.000	4,13	2.350.000	3,30
Deposits	6.284.243	34,97	30.544.497	57,31	36.828.739	51,68
Investment properties	584.310	3,25	10.466.212	19,64	11.050.522	15,51
Cash	364.694	2,03	724.340	1,36	1.089.034	1,53
Total	17.969.075		53.295.440		71.264.515	

Analysis of deposited and invested technical provision funds of the insurance companies as of 31 December 2011 shows that it was deposited and invested 71.638.165 euro of the net technical provisions funds or 92,84% of total net technical provisions funds in the level of insurance sector of Montenegro and in compliance with the stipulated asset forms (without restrictions stipulated by the Rulebook), while it was deposited and invested 71.264.515 euro of the net technical provisions reserves or 92,36% of the total net technical reserves when complying with the stipulated assets forms and restrictions stipulated in the Rulebook.

Deposits have the highest share in the total structure of invested and deposited technical provisions funds, in the asset forms stipulated by the Law and the Rulebook, the share being 51,68% and amounting to

36,829 mil.eur as of 31 December 2011. The share of government bonds (eurobonds,old savings bonds,etc.) was 21,74% or 15,491 mil.euro, while the share of investment properties was 15,51% or 11,051 mil.euro, shares 6,25% i.e. 4,455 mil.euro, bonds 3,30% i.e. 2,350 mil.euro, while the cash accounted for 1,089 mil.euro or 1,53%.

Figure 14 Structure of deposited and invested technical provisions funds in line with the restrictions stipulated by the Rulebook as of 31 December 2011 (%)

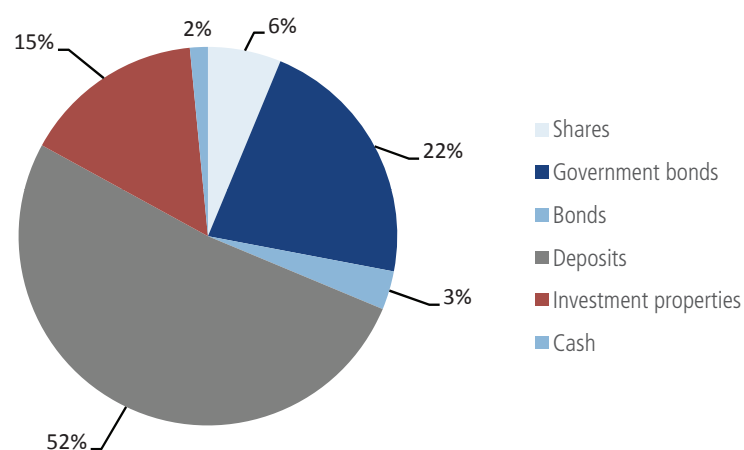
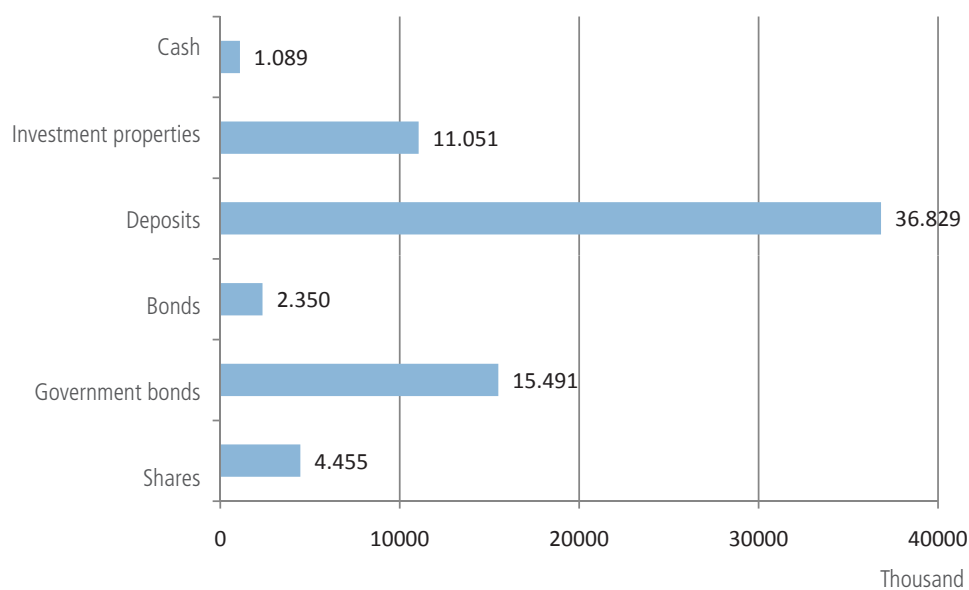


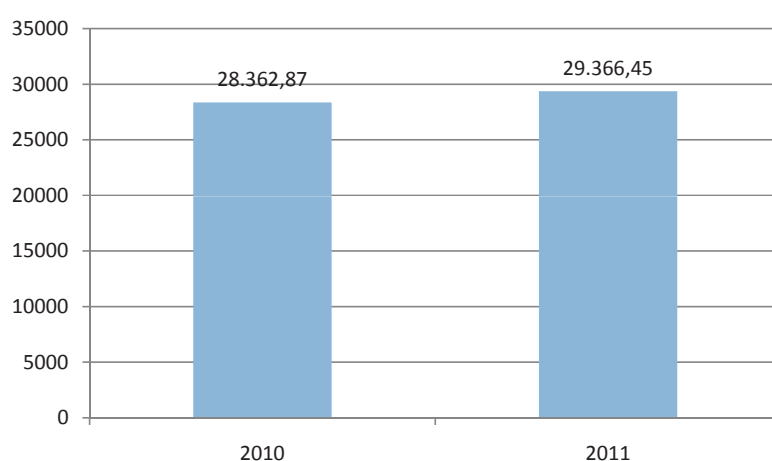
Figure 15 Structure of deposited and invested technical provisions funds in line with the restrictions stipulated by the Rulebook as of 31 December 2011 (%)



7.2 Depositing and investing guarantee reserve funds

Total amount of guarantee reserve of insurance companies was 29,366 mil.euro, as of 31 December 2011, which is 3,54% more compared to the end of 2010 when the guarantee reserve was 28,363 mil. euro.

Figure 16 Total Guarantee reserve as of 31 December 2010 and 31 December 2011 (thousand €)

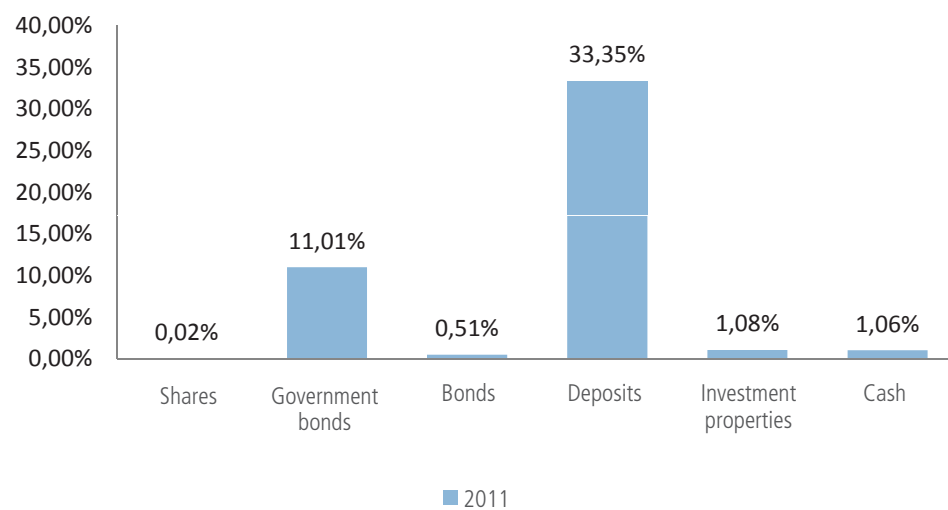


Pursuant to Law on Insurance, the insurance companies are obliged to create the guarantee reserve in order to properly perform their duties where the total amount of the guarantee reserve can be less than the financial amount of base capital stipulated by Article 21, Law on Insurance. Insurance companies are obliged to deposit at least one third of the guarantee reserve funds and invest it in forms stipulated for technical provisions by the Law and the Rulebook so as to provide a spread of risk and adequate and timely settlement of liabilities.

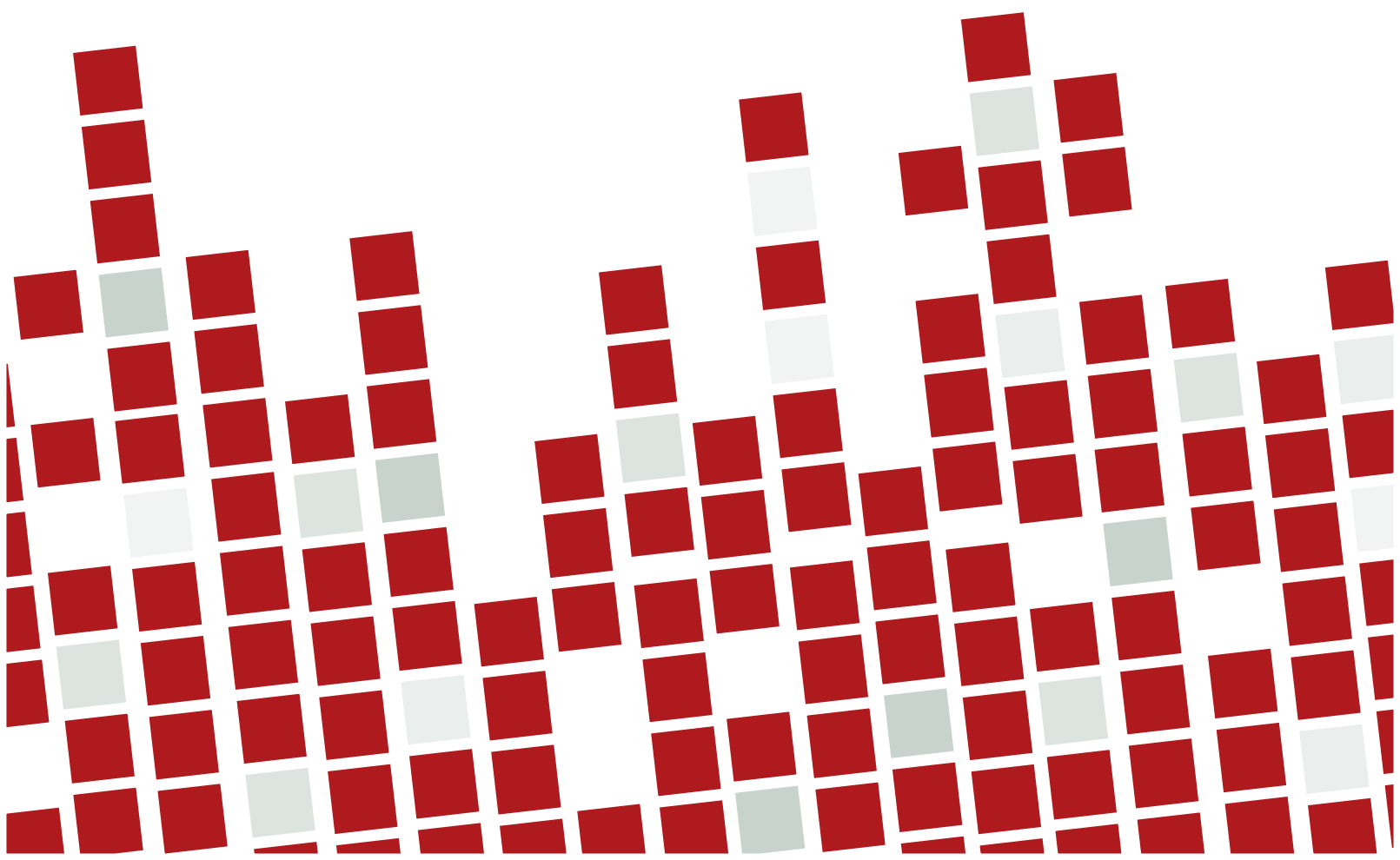
A conclusion that could be drawn by analysing the depositing and investing of the guarantee reserve funds of insurance companies as of 31 December 2011 is that as far as the entire insurance sector in Montenegro is concerned, the amount of 13.821.322 euro of total guarantee reserve funds or 47,07% was placed in line with stipulated asset forms and in compliance with the restrictions set forth by the Rulebook. Furthermore, That at least one third of the guarantee reserve funds must be deposited and invested in stipulated forms, and in compliance with restrictions set forth by the Rulebook.

Complying with all restrictions stipulated in the Rulebook, the guarantee reserve funds were mostly placed in deposits in the business banks amounting to 9.974.299 euro or 33,35% of total guarantee reserve funds, followed by the guarantee reserve funds placed in government bonds in the amount of 3.235.704 eur or 11,01% of total guarantee reserve funds. The remaining guarantee reserve funds were invested into investment properties, in the amount of 319.463 euro or 1,08%, and in cash 313.630 euro or 1,06%, bonds amounting to 150.000 euro or 0,51% of guarantee reserve funds and in shares 8.229 euro or 0,02%.

Figure 17 Structure of investing and depositing the guarantee reserve funds as of 31 December 2011 (%)



VIII - FINANCIAL OPERATING RESULTS





VIII - FINANCIAL OPERATING RESULTS

After reporting the negative net result in the last three years, the insurance activity generated the positive net result in the amount of 1,749 mil.euro in 2011.

Out of twelve insurance companies that were operating in 2011, seven companies generated profit amounting to 3.069 mil.euro, while remaining five insurance companies generated loss of 1,320 mil.euro.

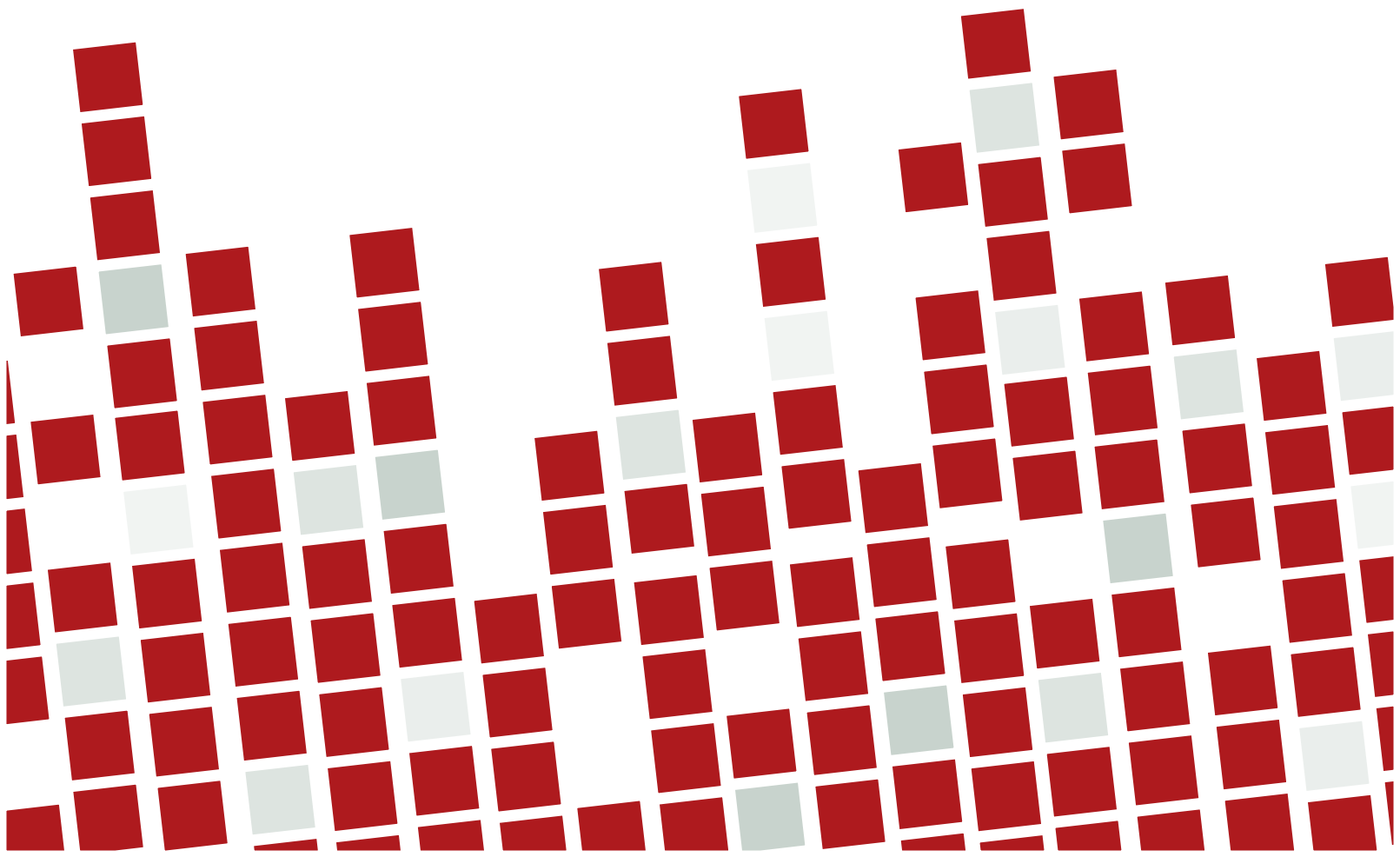
Lovćen životna osiguranja, Grawe osiguranje, Sava Montenegro, Swiss osiguranje, Delta Generali osiguranje and Merkur osiguranje had positive operating results in 2011, and Grawe osiguranje had the highest net profit of 1,101 mil.euro.

Table 25 Net financial result of insurance companies
on 31 December 2010 and 31 December 2011

Insurance company	Net financial result (€) 31 December 2010	Net financial result (€) 31 December 2011
Grawe osiguranje	1.244.983	1.100.521
Lovćen osiguranje	-4.845.625	945.059
Delta Generali osiguranje	22.448	470.247
Lovćen životna osiguranja		351.828
Sava Montenegro	-2.124.280	106.126
Swiss osiguranje	-107.366	79.478
Merkur osiguranje	28.736	15.327
Uniqa neživotno osiguranje	-725.175	-330.559
Uniqa životno osiguranje	-149.965	-310.459
Atlas life	-270.306	-289.946
Wiener Städtische životno osiguranje AD	6.983	-270.512
Delta Generali životna osiguranja	-164.956	-118.490
TOTAL	-7.084.523	1.748.620



IX - OPERATING INDICATORS





IX - OPERATING INDICATORS

9.1 Solvency

Article 98 of the Law on Insurance defines the solvency criteria. It stipulates that the guarantee reserve shall always exceed the calculated solvency margin. Solvency of insurance companies depends on the adequacy of technical provisions and guarantee reserve for undertaken obligations in a case of unforeseen operating losses.

Calculated solvency margin for the insurance sector in Montenegro, as of 31 December 2011, was 19,177 mil.euro, while guarantee reserve was 29,366 mil.euro, which shows that insurance companies in Montenegro were solvent on 31 December 2011. The ratio of the guarantee reserve and solvency margin for the entire insurance sector in Montenegro, as of 31 December 2011, was 153,14% meaning that the companies were compliant with statutory requirement whereby guarantee reserve must exceed calculated solvency margin.

Table 26 Solvency of insurance companies on 31 December 2010 and 31 December 2011

	Solvency margin (€)	Guarantee reserve (€)	Ratio of Guarantee Reserve and Solvency Margin (%)
Total for 2010.	18.818.016	28.362.866	150,72
Total for 2011.	19.176.588	29.366.447	153,14
Index of changes	101,91	103,54	-

The ratio of retained premium and total capital of the companies conducting non-life insurance operations shows the ability of companies to absorb the risk of inadequate premium price level, contingent claims and inadequate transfer of co-insurance and reinsurance risks. In case of companies engaged in non-life insurance operations, the retained premium represents an approximation of undertaken risks and it should be sufficient to pay claims and insurance-related compensations. In case that the premium is not adequately assessed, the co-insurance and reinsurance risk transfer is not performed adequately, as well as in case of other insurance risks, the total capital of the company is used as coverage guarantee.

The ratio of retained premium and total capital as of 31 December 2011 for the entire insurance sector for companies engaged in non-life insurance operations was 231,54% and is lower if compared to 31 December 2010 when it was 240,16%, which is a consequence of the increase in written gross premium of non-life insurance by 3,56% and simultaneous increase in capital of companies engaged in non-life insurance operations by 6,66% (total capital growth was 8,82%).

Table 27 Ratio of total retained premium and total capital for companies engaged in non-life insurance operations on 31 December 2010 and 31 December 2011 (%)

	Total retained premium /Total capital	
	2010	2011
Insurance sector	179,95	167,42
Non-life insurance sector	240,16	231,54

The ratio of total capital and technical provisions is observed for insurance companies engaged in life insurance operations and indicates the adequacy of approximation of undertaken risks under technical provisions. This ratio, as of 31 December 2011, was 70,04% (it was reduced if compared to 31 December 2010, when it was 81,91%) and indicates that reserves exist at the level of 70% in case of inadequately assessed assumed risks of companies.

Table 28 Ratio of the total capital and technical provisions for companies engaged in life insurance operations on 31 December 2010 and 31 December 2011 (%)

	Total capital /Technical provisions	
	2010	2011
Insurance sector	38,81	39,99
Life insurance	81,91	70,04

9.2 Reinsurance

Entering into reinsurance contract the risk is transferred to reinsurance and the insurer is protected against losses that could endanger operation of the company. If considering the entire insurance market in 2011, the written gross premium was 64,792 mil.euro showing the growth by 4,19% if compared to 2010. Simultaneously, the premium transferred to the reinsurance was 8,940 mil.euro or 13,79% of written gross premium, which shows the growth by 3,86% if compared to 2010. Furthermore, the companies were approved to commission by reinsurer in the amount of 1,681 mil.euro, which shows the growth by 23,14% if compared to 2010 when it was 1,365 mil.euro.

The share of reinsurer in gross processed claims in 2011 was 2,050 mil.euro or 8,31%, showing the growth by 17,14% if compared to 2010 when it was 1,795 mil.euro.

Considering specified trends in 2011 and due to a slight growth of written gross premium and premium transferred to reinsurance, there was achieved a significant growth in share of reinsurance in the processed claims and technical provisions, as well as commissions approved by the reinsurers.

Table 29 Share of reinsurers in gross premium, processed claims and gross technical provisions, as of 31 December 2011

	2010.	2011.	Index (%)
Written gross premium	62.185.581,00	64.791.699,00	4,19%
Premium transferred to reinsurance	8.607.625,00	8.939.758,00	3,86%
Commission approved by reinsurer	1.365.302,00	1.681.264,00	23,14%
Gross processed claims (not including costs of processing and paying these claims)	24.480.834,00	24.670.804,00	0,78%
Share of reinsurance in gross processed claims	1.794.964,00	2.050.214,00	14,22%
Share of reinsurance in gross technical provisions	4.362.884,00	5.110.604,00	17,14%

Insurance companies in Montenegro used reinsurance services of the following reinsurance companies in 2011:

Table 30 List of reinsurance companies that companies in Montenegro were doing business with

Insurance companies	Reinsurance companies
Lovćen osiguranje	Triglav Re
	Talbot Validus Group
	Novae Syndicates
	BAR 1955
	Zavarovalnica Triglav
	Lloyds Syndicate
	Chartis Insurance UK
	Polish Re
	SCOR Global
	Allianz Global Corporate & Speciality AG
	Mitsui-Sumitomo reinsurance Ltd
	Polskie Towarzystwo Reasekuracji S.A.
	Pozavarovalnica Sava Re
Grawe osiguranje	Grazer Wechselseitige Versicherung AG
Sava Montenegro	Sava Re
	Udruženje osiguravača Srbije
	Winer Sradtsche Vienna
Swiss osiguranje	Dunav RE
	Udruženje osiguravača Srbije
	Wiener RE
Delta generali osiguranje	Delta Generali Reosiguranja
Uniqa neživotno osiguranje	Allianz Hungaria Biztosító ZRT
	Allianz Global Corporate & Speciality AG
	Uniqa Re
	Uniqa Sachversicherung AG
	Wiener RE
	Ug.AXA Corporate Solutions
	Ug.Chartis
	Munich Re
Uniqa životno osiguranje	Swiss Re Europe S.A
Delta generali životna osiguranja	Delta Generali Reosiguranja
Atlas life	General Reinsurance Co Ltd
Merkur osiguranje	Kolnische Rückversicherungs AG
Wiener Städtische životno osiguranje	Wiener RE
Lovćen životna osiguranja	Triglav Re

9.3 Profitability

Retained relevant loss ratio

Retained relevant loss ratio is the indicator of the price policy and adequacy, precisely of the adequacy of premiums to cover obligations arising from insurance contracts and adequacy of transferred risks into reinsurance. This indicator was 70,30% for non-life insurance sector in Montenegro as of 31 December 2011 and it points out the fact that the earned claims were lower by 29,70% than retained earned pure premiums i.e. premiums of insurance companies were sufficient to settle obligations arising from insurance contracts.

Table 31 Retained loss ratio by classes of insurance as of 31 December 2011

Class of Insurance	Retained relevant loss premiums	Retained relevant claims	Retained relevant loss ratio (%)
Third party liability insurance of owners or users of motor vehicles	21.823.747	11.971.721	54,86
Liability insurance of watercraft owners or users	61.675	-19.415	0,00
Liability insurance of aircraft owners or users	79.235	-10.139	0,00
Motor vehicles insurance	3.520.137	3.407.337	96,80
Railborne vehicles insurance	50.060	0,00	0,00
Aircraft insurance	90.927	3.552	3,91
Watercraft insurance	80	13.342	16.638,48
Property insurance against fire and other risks	296.227	421.465	142,28
Other property insurance	833.430	811.982	97,43
Accident insurance	4.629.658	5.476.200	118,29
General damages liability	197.098	66.179	33,58
Travel insurance	97.955	9.074	9,26
Voluntary health insurance	628.139	594.765	94,69
Insurance of goods in transport	14.104	57.488	407,60
Credit insurance	7.980	-59.004	0,00
Commercial guarantee	12.399	590	4,75
Financial loss insurance	3.329	11.843	355,70
Other non-life insurances	26.610	1.012	3,80
TOTAL	32.372.794	22.757.991	70,30

Profitability of assets and equity

Ratio of net results and total assets (ROA-return of assets) is the measure of return on total assets in 2011 generated by employing funds in insurance operations, investments, etc. Seven companies had positive net results and equity as of 31 December 2011. When all companies in Montenegro are taken into account there is positive net result and return of total assets of 1,29%, as well as positive return on equity of 5,31%, which is a result of net profit generated in insurance sector in Montenegro. It should be pointed out that these two indicators were positive after three years of generating the negative return of assets and equity. As of 31 December 2010, these two indicators were ROA -5,81 and ROE - (return of equity) 23,4.

Table 32 Profitability indicators on 31 December 2011

	Assets (€)	Capital (€)	Net profit /loss (€)	ROA	ROE
TOTAL	135.338.325	32.903.107	1.748.620	1,29	5,31

9.4 Liquidity

The liquidity ratio as of 31 December 2011 for insurance companies in Montenegro was 3,05 which means that at the end of 2011 companies had 3,05 times higher liquid assets if compared to their short-term liabilities. This ratio is calculated in accordance with the Rulebook on the Manner of Determining and Monitoring the Insurance Companies Liquidity.

9.5 Claims indicators

Timelines in settling claims

The indicator of timelines in settling claims is used to determined the number of processed claims compared to the total number of reported claims in the observed year. In 2011, insurance companies had high level of timelines since 89,14% of total number of reported claims was processed.

Table 33 Timelines in processing claims by insurance classes for the insurance market on December 2011

Insurance class	Number of processed claims	Total number of claims	% timelines
Third party liability insurance of owners or users of motor vehicles	8.184	9.924	82,47
Liability insurance of watercraft owners or users	35	40	87,50
Liability insurance of aircraft owners or users	5	6	83,33
Motor vehicles insurance	3.787	4.250	89,11
Railborne vehicles insurance	0	0	0,00
Aircraft insurance	0	1	0,00
Watercraft insurance	2	3	66,67
Property insurance against fire and other risks	324	407	79,61
Other property insurance	1.493	1.709	87,30
Accident insurance	9.605	10.085	95,24
General damages liability	505	456	110,75
Travel insurance	39	46	84,78
Voluntary health insurance	1.154	1.264	91,30
Insurance of goods in transport	104	110	94,55
Credit insurance	57	63	90,48
Commercial guarantee	3	3	100,00
Finacial loss insurance	6	7	85,71
Other non-life insurances	3	4	75,00

Insurance class	Number of processed claims	Total number of claims	% timelines
TOTAL non-life insurance	25.306	28.378	89,17
Life insurance	868	881	98,52
Annuity insurance	2	2	100,00
Additional insurance along with life insurance	361	508	71,06
Other life insurances	0	0	0,00
TOTAL life insurance	1.231	1.391	88,50
TOTAL	26.537	29.769	89,14

Gross claims ratio

Gross claims ratio is calculated as ratio of the sum gross amount of processed claims and changes in technical provisions and amount of earned insurance premium. When observing the entire insurance sector in Montenegro as of 31 December 2011, 51,73% of the earned premium referred to gross claim expenses and increase of gross technical provisions.

Table 34 Gross claims ratio of insurance companies on 31 December 2011

	Gross processed claims (€)	Change in gross technical provisions (€)	Earned insurance premium (€)	Gross claims ratio (%)
TOTAL	26.933.026	6.074.344	63.802.604	51,73

Expenses ratio

Expenses ratio is calculated as a ratio of the sum of the costs of conducting insurance-related activities and other operating costs, contributions and reservations arising from insurance operations and earned insurance premium. When observing the entire insurance sector as of 31 December 2011, 48,50% of the earned premium referred to costs of conducting insurance-related activities and other operating costs, and contributions and reservations which indicates a high level of the companies' costs for conducting insurance operations.

Table 35 Share of insurance-related costs and other operating costs arising from insurance operations in earned premium as of 31 December 2011

	Costs arising from insurance-related activities and other operating costs, contributions and reservations (€)	Earned premium (€)	Expenses ratio (%)
TOTAL	30.947.253,75	63.802.604,25	48,50

In relation to 31 December 2010 the expenses ratio was less by 3,01 percentage points than as of 31 December 2011 9, which was caused by reducing the costs of conducting the insurance-related activities and other operating costs, and contributions and reservations in the amount of 980.797 €, as well as by increasing the earned premiums in the amount of 1.823.900 €.

9 - Expenses ratio amounted to 51,51% as of 31 December 2010. It was calculated according to data from the new balance forms of the insurance companies that have been applied since 1 January 2011 in compliance with the Rulebook on the Chart of Accounts for Insurance Companies

Combined ratio

Combined ratio, representing a sum of gross claims ratio and expenses ratio, shows a result of operating activities prior to inclusion of revenues from investments. On 31 December 2011, expenses of insurance companies arising from claims, costs of conducting insurance-related activities and other operating costs, as well as from contributions and reservations generating from insurance operations were higher by 0,23% in relation to earned premium but less comparing to 31 December 2010 when the mentioned costs were by 11,71% higher in relation to the last year earned premium.

Table 36 Combined ratio on 31 December 2011 (%)

	Gross claim ratio	Expenses ratio	Combined ratio
TOTAL	51,73	48,50	100,23



X - ASSOCIATION - NATIONAL BUREAU OF INSURERS OF MONTENEGRO



X - ASSOCIATION - NATIONAL BUREAU OF INSURERS OF MONTENEGRO

The Association – National Bureau of Insurers is a legal entity, established to implement joint interests of insurance companies engaged in compulsory transport insurance operations in Montenegro. All insurance companies engaged in the compulsory transport insurance operations must be members of the National Bureau of Insurers.

The National Bureau of Insurers conducts its operations through established organisational parts without legal entity status:

- 1) Green Card Bureau;
- 2) Guarantee Fund;
- 3) Information center.

Its members manage this association, and its managing bodies are the Assembly, constituted by one representative from each insurance company being its member, and the Executive Director who act on behalf and is the authorized representative of the Association.

10.1 Operations of Association – National Bureau of Insurers of Montenegro in 2011

Association – National Bureau of Insurers of Montenegro became a valid member of Council of Green Card Bureau from Brussels on the General Assembly of Council of Green Card Bureau of 26 May 2011 in Dubrovnik. Conditions that the Association was obliged to meet while performing independent operations within the Green Card System, were, among others, entering into contracts related to the excess of loss reinsurance in line with the international insurance card in accordance with the conditions set forth by the Council of Bureau (the Contract was signed with the Swiss RE reinsurance company), as well as providing of financial warranty or deposits in the amount of 2.500.000 euro providing that the bank that should issue the warranty must be rated at least „A“ and must come from the EU territory. Montenegro started its independent membership in the green card insurance system on 1 February 2012.

In 2011, the following activities were performed in order to set forth enabling regulations needed for the operation of Association within the Green Card Bureau:

- a) Rulebook on the Manner and Procedure for Issuance, Use and Control of the International Motor Insurance Certificate and Claims Handling;
- b) Decision Criteria for Participating of Insurance Companies in Provision of Financial Warranty;
- c) Decision on Allocation and Payment of Reinsurance Premium in relation to the International Motor Insurance Certificate;
- d) Decision on the Membership Fee to Cover Obligations in relation to an International Insurance Motor Certificate.

Furthermore, Association adopted a set of enabling regulations in previous year in line with the Law on Compulsory Transport Insurance, out of which the most important are as follows:

- Rulebook on the Financing of the National Bureau of Insurers of Montenegro;
- Code of Conduct in Compulsory Insurance Operations;
- Act on the Establishment of Arbitration;
- Rulebook on Recourse Claims Realization based on Recovery of Damages from the Guarantee Fund;
- Rulebook on Criteria for Determining an Amount of Contributions to the Guarantee Fund;
- Decesion on Paying the Undisputed Portion of Damage Claim;
- Rulebook on Conducting Bureau Archivial Operations;
- Decision on Amending of Tariff Compulsory Insurance of Passengers in Public Transport against Consequences Caused by Accident.

Furthermore, Association established cooperation with border and traffic police in order to accept international documents about auto liability insurance of foreign vehicles and to conduct investigations of traffic accidents with foriegn vehicles and it performed a number of activities so as to implement Information system where the most important activity is the preparation of Register of Auto Liability Insurance Polices and Claims Register.

Calculation of Guarantee Fund profit in 2011

The Guarantee Fund has a special importance in the Association, and insurance companies engaged in compulsory life insurance allocate funds for its functioning from sold insurance was to secure payments of damages casued by the use of unknown or uninsured vehicles, aircrafts, watercrafts or other means of transport, as well damages caused by these means of transport if insured with the insurance companies that was revoked its operating licence or if bankruptcy or liquidation proceeding was initiated against such company. In addition to the mentioned damages, the funds of this Fund also cover damages caused by a vehicle the use of which was covered by a green card or border insurance, as well as costs of processing these claims and costs of operation of the Guarantee Fund.

The funds of the Guarantee Fund that were available to the Association in 2011 amounted to 2.258.618 euro. During 2011, the Association paid claims of 1.334.414 euro, out which for damages aboard 437.182 euro, and for damages in country 897.232 euro.

During the reporting period, the Association processed 647 claims out of the total number of claims that should be processed (951 claims). Out of the total number of processed claims, 372 request for payment of claims were rejected and 275 claims were paid.

The following Table provides an overview of calculations of contributions for the Guarantee Fund for all companies engaged in compulsory insurance operations:

Table 37 Calculation of contribution to the Guarantee Fund for
all insurance companies on 31 December 2011

		No. of policies	Calculated contribution
Contribution from the technical premium of the compulsory vehicle owners or users liability insurance		253.447	1.531.557,00
a)	Passenger vehicles	168.055	1.008.330,00
b)	Cargo vehicles	12.346	246.920,00
c)	Buses and trolley buses	1.156	46.240,00
d)	Buses and trolley bus trailers	1	20,00
e)	Trailers and other towable vehicles	1.889	5.667,00
f)	Other motor vehicles	7.190	35.950,00
g)	Border policy	62.810	188.430,00
		Written gross premium	Calculated contributions
Contribution from the technical premium of the compulsory aircraft owners or users liability insurance		0	0
Contribution from the technical premium of the compulsory public transport passengers insurance		121.870,81	1.218,71
Compulsory watercraft owners or users liability insurance		20.218,30	202,18
Total		142.089,11	1.420,89
TOTAL – GUARANTEE FUND CONTRIBUTION			1.532.977,89





ATLAS LIFE AD

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Classes of insurance: life insurance
Number of employees: 13



GRAWE OSIGURANJE AD

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Web: www.grawe.me

Classes of insurance: life insurance
Number of employees: 20



DELTA GENERALI OSIGURANJE AD

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Web: www.deltagenerali.me

Classes of insurance: non-life insurance
Number of employees: 61



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Number of employees: 264



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Classes of insurance: life insurance
Number of employees: 7



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Web: www.lovcenzivot.me

Classes of insurance: life insurance
Number of employees: 11



MERKUR OSIGURANJE AD

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Email: info@merkurosiguranje.me
Web: www.merkurosiguranje.me

Classes of insurance: life insurance
Number of employees: 7



SAVA MONTENEGRO AD

Address: Rimski Trg 70, 81000 Podgorica
Telephone: +382 20 234 508, 234 036, 403 020
Fax: +382 20 234 008
Email: info@sava.co.me
Web: www.sava.co.me

Classes of insurance: non-life insurance
Number of employees: 146



SWISS OSIGURANJE AD

Address: Josipa Broza 23A, 81000 Podgorica
Telephone: +382 20 657 300
Fax: +382 20 657 301
Email: sio@t-com.me
Web: www.swiss-osiguranje.com

Classes of insurance: non-life insurance
Number of employees: 27



UNIQA NEŽIVOTNO OSIGURANJE AD

Address: Bul. Sv. Petra Cetinjskog 1a/4, 81000 Podgorica
Telephone: +382 20 444 700
Fax: +382 20 444 715
Email: info@uniqa.co.me
Web: www.uniqa.co.me

Classes of insurance: non-life insurance
Number of employees: 113



UNIQA ŽIVOTNO OSIGURANJE AD

Address: Bul. Sv. Petra Cetinjskog 1a/4, 81000 Podgorica
Telephone: +382 20 444 700
Fax: +382 20 444 715
Email: info@uniqa.co.me
Web: www.uniqa.co.me

Classes of insurance: life insurance
Number of employees: 125



WIENER STÄDTISCHE ŽIVOTNO OSIGURANJE AD

Address: Bulevar Revolucije 50/1, 81000 Podgorica
Telephone: +382 20 201 250
Fax: +382 20 201 251
E-mail: office@wiener.co.me
Web: www.wiener.co.me

Classes of insurance: life insurance
Number of employees: 31

