

**JOINT STOCK INSURANCE COMPANY
WINNER – VIENNA INSURANCE GROUP SKOPJE**



**ANNUAL REPORT ON OPERATIONS
OF THE JOINT STOCK INSURANCE COMPANY WINNER –
VIENNA INSURANCE GROUP IN 2016**

Skopje, February 2017

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1. Basic information about the Company

The Joint Stock Insurance Company WINNER – Vienna Insurance Group Skopje (hereinafter: the Company) is an insurance company registered in the Republic of Macedonia in 2002, under the code of activity 65.12 or non-life insurance.

The Headquarter of the Company is at the following address: Blvd. Boris Trajkovski no. 62, Skopje; the Company ID number is 5702470, the tax number is 4030002461200; website: www.winner.mk, and e-mail address: winner@winner.mk

2. Social environment and the insurance market

In terms of the legislation in 2016, as the most significant for the Company's operations are amendments to the Insurance Supervision Law, and amendments to several bylaws adopted by the Insurance Supervision Agency, and which arise from the Insurance Supervision Law. Amendments in these documents are in regard of the regular reports to the Agency which determine shorter deadlines and submission of electronic notifications. There have also been changes in the laws regulating the payment of certain taxes, the law for cash payment and laws related to labour relations, occupational safety and etc.

The insurance sector in the country is controlled by the Insurance Supervision Agency, which is the regulatory body of the insurance market. Basic laws for the operation of insurance companies are: the Law of Obligations, the Insurance Supervision Law and the Law on Compulsory Traffic Insurance.

In 2016 the insurance market was operated by 11 non-life and 4 life insurance companies. Most insurance companies are owned by foreign insurance companies and groups. Concerning intermediaries on the insurance market, there are 33 insurance brokerage companies, 14 insurance agencies and three banks handling insurance intermediary operations on the insurance market.

3. Business Policy

The Joint Stock Insurance Company WINNER - Vienna Insurance Group planned its business policy for 2016 based on the acts of the Company, the Insurance Supervision Law and other laws and bylaws regulating the insurance business in the Republic of Macedonia.

The goal of the Company's business policy is to maintain and improve the position of a modern and market-oriented company that offers insurance services of impeccable standards and content, and to meet the needs of the citizens, i.e. to increase the confidence and interest of the citizens and legal entities for insurance, noting that the insurance system is

something that brings safety and security in their everyday lives, which will also contribute to improved results in all aspects and ensure the highest possible return on invested capital.

The basic principles that laid the foundation of the business policy are:

- Continuous monitoring and implementation of legal norms and regulations;
- Full responsibility and fulfilment of obligations to policyholders;
- Efficient operation and prompt settlement of claims;
- Maximum commitment to urgent and full response to the needs of the customers;
- Investment in long-term relationships with our clients through loyal service to their needs;
- Transparent and honest work;
- Regular collection of receivables;
- Development, expansion and investment in the structure of human resources;
- Informing the public about our products and their continuous improvement and adjustment to the requirements of our clients and the insurance market;
- Creating public awareness of insurance through responsible, safe and fair work.

These business principles are part of the Plan of operation of the Company for 2016, and the same were fully adhered to and applied during operation, which contributed to achieving excellence in all operational aspects.

4. Analysis of operations and financial results

In 2016, the Company reached gross written premium in the amount of 801,485,036.00 denars, deployed by insurance classes, as indicated in the table:

WINNER 31.12.2016

(in MKD)			
Class		GWP	Net Claims Ratio
01	Accident Insurance	68.413.489,00	52,90%
02	Health Insurance	4.043.441,00	19,00%
03	Land vehicle casco insurance	61.170.572,00	66,64%
04	Rail vehicle casco insurance	0,00	0,00%
05	Aircraft casco insurance	38.179.749,00	0,00%
06	Marine casco insurance	33.874,00	0,00%
07	Transport insurance (cargo)	5.981.599,00	5,30%
08	Fire and natural hazards insurance	16.007.125,00	15,68%
09	Other property insurance	184.862.556,00	70,99%
10	Land vehicle MTPL	393.077.487,00	49,10%
11	Aircraft liability insurance	4.555.453,00	0,00%
12	Marine liability insurance	154.269,00	0,00%
13	General liability insurance	12.040.167,00	9,42%
14	Credit insurance	0,00	0,00%
15	Guarantee insurance	9.739,00	0,00%
16	Legal expenses insurance	0,00	0,00%
17	Assistance travel insurance	12.955.516,00	4,83%
Total		801.485.036,00	51.03%

The Company achieved gross written premium in the amount of 801,485,036.00 denars, an increase of 17.3% compared to 2015. The Company operated in all insurance classes for which there was interest on the market, and yielded a balanced portfolio. In the operation were used all available sales channels meaning own sales employees, insurance agents, insurance brokerage companies, insurance agencies and banks, but as in past years, the own employees and exclusive agents are the main drivers of sales. During the year the company worked on the introduction of new insurance products, but also to improve the terms and conditions of existing products in order to meet the demands of the market and the customers, but also taking into account keeping them profitable.

The achieved gross written premium of 801,485,036.00 denars, presents an increase of 17.3% compared to 2015, whereby net earned premium totals 340,632,068.00 denars, which compared to 2015 presents an increase of 13%. The investment income increased by 6.6% compared to 2015. The investments of the Company were fully compliant with the limits in laws and regulations, as well as the internal corporate regulations. The main objective of the Investment Strategy was to ensure stable income from investments with minimum risk, while continually ensuring enough funds for the Company to meet its liabilities.

The expenditures of the Company in 2016 are, generally, highest in the area of claims settlement. The Company paid gross claims in the amount of 767,758,676.00 denars. The Claims Department was fully dedicated to expeditious, efficient and equitable processing of claims. The process of settling claims is performed by the Company employees and external associates (assessors, experts and practitioners/doctors censors), whereas excellent cooperation was established with a number of services, medical institutions and other specialized institutions in order to facilitate the process of settling claims and addressing the needs of policyholders. The Company costs were focused on improving profits through effective admission to insurance and improvement of the portfolio and profitability.

All income and operating costs of the Company in 2016 stood within the estimated amount and the increase in gross written premium caused negligible impact on cost increases, however that increase bared no negative impact on the projected profit. During 2016, the Company achieved profit before tax of 48,357,722.00 denars, and net profit of 42,178,042.00 denars. According to reached gross profit the Company attained 15.5% return on capital in 2016 and 19.6% return on equity.

A detailed review of all revenues and expenses is presented in the financial statements of the Company attached to this Annual Report.

In 2016, the Company fulfilled all required criteria for capital and solvency margin, and at no point jeopardized its solvency, and what is more important, during the past year the Company had allocated appropriate technical reserves.

In 2016, receivables of the Company were regularly classified in accordance with all accounting standards, and the Company paid great attention to collection of all due debts. In order to provide impeccable service to the customers and policyholders, the Company appropriately cared for its own their interests and collection of premiums.

A detailed review of assets and liabilities is presented in the financial statements of the Company attached to the Annual Report.

5. Risk Management

On 21.12.2015, the Management Board of the Company adopted Rules for Risk Management enfolding the possible risks during operation in 2016. In addition, the Company implemented the Investment and Risk Strategy for 2016, which was adopted by the Management Board on 23.11.2015, and approved by the Supervisory Board. The Management Board fully implemented the planned risk management activities and all risks were duly anticipated and met. Consequently, the Company regularly controlled implementation of Company acts and legal norms, and paid special attention to the implementation of the reinsurance rules, underwriting, investment of asset, protection of personal data and the reliability of the Company's information systems.

The Risk Information System Committee met regularly and according to the priorities it proposed appropriate solutions for the information systems.

In 2016, the Company appointed Ana Serafimova as person responsible for risk management (Risk Officer), who together with the Heads of the organizational units who are the risk holders coordinated the process of risk management. In addition, the Company assigned Blagoj Petkovski as person responsible for compliance with regulations (Compliance Officer), who cooperates with the Heads of the organizational units to reach full compliance of the Company with the legislative regulations. In 2016, the Compliance Committee, headed by the Compliance officer and composed of Heads of the organizational units, held one meeting.

The risk officer and the compliance officer, regularly report to the Management Board on its activities, and then inform the sole shareholder or Vienna Insurance Group.

6. Share Capital and Shareholders

The Company holds a total of 403,400 shares with a nominal value of 10 euros per share and total share capital in the amount of 4,034,000.00 euros in MKD equivalent.

The sole shareholder in the company is VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE (VIG) located at Schottenring 30, Vienna, Austria. The Group operates in Central and Eastern Europe more than 25 years and is one of the leading insurance groups in the region. VIG has about 23,000 employees in more than 50 companies in the 25 different countries.

7. Development of the Company

In 2016 the Company developed according the plan and fully met all planned objectives and targets. The performance of the Company improved in all aspects compared to the previous financial years, which increased the efficiency and profitability of the Company, and the capacity for aftersales service to policyholders, primarily in the segment of claims. Efficient and fair resolution of claims was and will remain a top priority of the company.

On 15.12.2016, the Plan of operation for 2017 was approved by the Supervisory Board that envisaged maintaining balanced development in all business segments and improving the performance of the Company. As in the past years, development will progress gradually without taking risks that may impair the operation in any aspect, and increasing the

competences of the staff will occupy one of the key areas of development. And again, the principal goal of operations will be the needs and services to policyholders and profitability and legal operations.

8. Branch network, subsidiaries and employees

During 2016, the Company operated on the entire territory of the Republic of Macedonia through its own network of subsidiaries and employees distributed in 26 cities, including 105 insurance agents, 28 brokerage companies, 2 insurance agencies and one bank.

The Company in 2016 had 225 employees of which 176 are involved in sales, and 49 work in administration. Staffing corresponds to the needs of the Company, and each employee is provided with suitable professional development in order to improve their performance, as well as the performance of the Company as a whole.

9. Relations with the parent company

As stated in section 5 of this report, the sole owner of the Joint Stock Insurance Company WINNER - Vienna Insurance Group Skopje is VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE (VIG). The Company cooperates with its sole shareholder, yet primarily with VIG RE, that is the Reinsurance Company which holds an A+ rating, and during cooperation they fully respect the legal norms and bylaws for reinsurance and the Company's Reinsurance Program.

Transactions with VIG and VIG RE fall under transactions with interested parties, however, the same do not require an approval procedure under the provisions for agreements with interested parties from the Company Law, because according to Article 457 paragraph 3 item 2 of the Company Law such procedure is not necessary if all shareholders have an interest in the deal.

10. Bodies of Management

The bodies of management are established in line with the Company Law, the Insurance Supervision Law and the Company Statute.

The Company applies a two-tier management system, comprised of a Management Board and a Supervisory Board.

Members of the Management Board are:

1. Ph.D. Zoran Narashanov – President of the Management Board;
2. M.Ec. Dejan Mihajlov – Member of the Management Board; and
3. Naser Zenku - Member of the Management Board.

All members of the Management Board, before entering office, received statements of approval for carrying out functions of members of a managing body issued by the Insurance Supervision Agency. At the meeting of the Supervisory Board held on 10.12.2015, the mandate of all members of the Managing Board was extended for additional three years, or until 15.04.2019.

The Supervisory Board consists of five (5) members, two of which are independent members:

1. Gabor Lehel - President of the Supervisory Board
2. Michael Hack - Member of the Supervisory Board
3. Reinhard Gojer - Member of the Supervisory Board
4. Zoran Dimov - Member of the Supervisory Board
5. Johann Gürtl - Member of the Supervisory Board

Through 2016 staff changes were made in the structure of the Supervisory Board replacing Peter Höfingler by Gabor Lehel, who by decision of the Supervisory Board made on 09.06.2016 was appointed President of the Supervisory Board. Unfortunately, since the Board member Rumen Yanchev passed away on 28.08.2016, at the Shareholders Meeting held on 18.11.2016 Johann Gürtl was appointed new independent member of the Supervisory Board.

On 30.12.2016, the members of the Supervisory Board: Michael Hack, Reinhard Gojer and Johann Gürtl submitted their notarized resignations to the Company. After consulting the Supervisory Board and the sole shareholder, on 26.01.2017 the Management Board organized a Shareholders Meeting at which was adopted a decision for amendment to the Company Statute, whereas the number of Supervisory Board members was reduced from 5 to 4 members, and as new the Supervisory Board were appointed Wolfgang Petschko and Philipp Bardas.

On the date of adoption of this Annual Report, the Supervisory Board of the Company was assembled by:

1. Lehel Gabor – Chairman of the Supervisory Board
2. Wolfgang Petschko – Member of the Supervisory Board
3. Philipp Bardas – Member of the Supervisory Board and
4. Zoran Dimov - Independent Member of the Supervisory Board

All members of the Supervisory Board meet the necessary requirements to carry out their functions in accordance with the Company Law and the Insurance Supervision Law and relevant evidence is submitted to the Insurance Supervision Agency with their appointment.

By decision of the General assembly, the Supervisory Board members shall receive no compensation for the performance of their functions, while data on the remuneration of members of the Management Board are part of the financial statements, which are an integral part of this annual report.

During 2016 two sessions of the General Shareholders Meeting were held, or one regular Annual Shareholders Meeting on 06.04.2016, and one special shareholders meeting on 18.11.2016. At the Annual General Meeting all annual reports of 2015 were accepted, the operations of all members of the Management Board and the Supervisory Board in 2015 were approved, the distribution of profits for 2015 was decided and the external auditor for 2016 was appointed, and Gabor Lehel was appointed new member of the Supervisory Board, replacing Peter Höfingler. The extraordinary meeting was convened for the appointment of a new member of the Supervisory Board, replacing the departed Rumen Yanchev, held on

18.11.2016. At the same meeting, a unanimous decision was made appointing Johann Gürtl independent member of the Supervisory Board of the Company.

11. Policies and Internal Company Acts

In 2016, the Company adopted several policies to improve the corporate governance and also worked on the harmonization of internal acts with new legislation. In terms of policies the following were adopted: Remuneration Policy, Fit and Proper Policy, Compliance Policy), Outsourcing Policy and Transactions Policy, and conducted technical harmonization of the code of ethics to the one of VIG.

Part of the internal acts of the Company was revised during that year; however, all amendments were made to comply with legal norms and regulations, and the Company's internal rules.

12. Name, address and date of appointment of auditor

The authorized external auditor of the Company in 2016, by decision of the General Shareholders Meeting held on 06.04.2016, was KPMG Macedonia DOO Skopje. The appointed auditor is located at "Philip II of Macedonia" Street no. 3, Skopje - Soravia Centre, 7th floor, and their website is www.kpmg.com.mk.

According to the Law on Insurance Supervision, the company hired Mr. Lenin Prculovski, a licensed auditor, holding licence No. 07-27581/1 dated 02.02.2005.

13. Classes of insurance and types of insurance contracts

According to the Insurance Supervision Law the insurance companies can only work in the classes of insurance for which they have approval from the Insurance Supervision Agency. The Decisions No. 18-24809/2 of 24.10.2002 and No. 12-9216/2 dated 13.04.2009 and brought by the Ministry of Finance approves the Company to operate 17 classes of insurance:

1. Accident Insurance – Class 1
2. Health Insurance – Class 2
3. Land Vehicle Casco Insurance – Class 3
4. Rail Vehicle Casco Insurance – Class 4
5. Aircraft Casco Insurance – Class 5
6. Marine Casco Insurance – Class 6
7. Transport Insurance (cargo) – Class 7
8. Fire and Natural Hazards Insurance – Class 8
9. Other property insurance – Class 9
10. Liability Insurance of motor vehicles (MTPL) – Class 10
11. Aircraft Liability Insurance – Class 11
12. Marine Liability Insurance – Class 12
13. General Liability Insurance – Class 13
14. Credit Insurance – Class 14

- 15. Guarantee Insurance – Class 15
- 16. Legal Expenses Insurance – Class 17
- 17. Travel Assistance Insurance – Class 18

Within these classes of insurance, the Company concluded the following types of insurance contracts: Green card; Travel Insurance; Transport – international, land; Group Travel Insurance; Accident Insurance, Health Insurance for Foreigners in the Republic of Macedonia; Industrial Fire Insurance; Civilian Fire Insurance; Public Transport Passenger Insurance; Transport – local, land; Electricity Providers - Breaking machines; Cross Border Insurance; Compulsory Maritime Insurance; Burglary and Theft Insurance; CMR; Transport – international, aerial; Breaking glass; Insurance of Buildings under Construction; Electricity Providers – Breaking Machines; Electronic Computers and Processors; Managerial Insurance; Household Insurance; Maritime Vessels Insurance; Glass Insurance; Additional Health Insurance for persons in the event of serious illnesses and operations; Health Workers Liability Insurance; Notary Liability Insurance; Travel Agency Liability Insurance Liability insurance of lawyers; General Liability Insurance; Insurance Brokers' Liability; Product Usage Liability Insurance; Liability Insurance of Accountants; Liability Insurance of Employees; Liability insurance of bodyguards, detectives and security agencies; Liability insurance of court experts and appraisers; Liability Insurance of Trustees; Maritime Employer's Liability Insurance; Auditor's Liability Insurance; Forwarders' Liability Insurance; Motor Vehicles Casco Insurance, Combined Insurance - Travel and Accident; Combined Insurance of Health Facilities; Mortgage Insurance of Loans; Individual Property Insurance; Small and Medium sized enterprises' insurance; Insurance of crops and fruits; Fire caused by civilians insurance; Combined Insurance of Shops and Service Providers; MTPL.

14. Concluding Observations

The Company had a successful 2016, we are proud of the results, and above all we are proud of all our policyholders since our commitment to their needs and concerns, decided to give us their trust in large figures. At year-end we reached total gross written premium of 801,485,036.00 denars and a high percentage of return customers. These results only show the correct approach to the Company's own performance, which is focused on providing impeccable service to our clients.

At the same time, the Management Board was fully dedicated to achieving the goals set at the beginning of the year, higher profit was achieved, and i.e. profit before tax totalled 48,357,722.00 denars, which denotes 19.6% return of the share capital and a combined ratio of 88.97%, as well.

These positive results present an excellent introduction to the new 2017, where the Company expects to continue its development and meet all objectives set in the plan of operations for 2017.

Annex and integral parts of the Report are the annual financial statements and the confirmation by a certified actuary with the opinion on whether the premiums and technical provisions have been calculated according to the Insurance Supervision Law.

**Joint Stock Insurance Company
WINNER – Vienna Insurance Group Skopje
President of the Managing Board
Ph. D. Zoran Narashanov**

