

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



**ANNUAL REPORT ON OPERATIONS
OF THE JOINT STOCK INSURANCE COMPANY WINNER –
VIENNA INSURANCE GROUP IN 2017**

Skopje, February 2018

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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 2017, as the most significant for the Company's operations are amendments to several bylaws adopted by the Insurance Supervision Agency, and which arise from the Insurance Supervision Law. The amendments in these documents are in regard to the procedure for implementation of work operation training and Insurance representation, Insurance brokerage, documentation which is submitted alongside the request for obtaining permits, as well as in the part of Insurance agents, i.e. obtaining licenses for the agents and needed documents regarding the requests for modification, which are submitted to the Insurance Supervision Agency.

The MTPL Insurance tariff had also been modified in accordance with the Law on Mandatory Traffic Insurance.

During the year, there were amendments to the Labor Relations Law, as well as to particular financial laws and bylaws regarding the public acquisitions, calculation and payment of corporate income tax and avoidance of double release or double taxation, the procedure for paying personal income tax and others.

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 2017 the insurance market was operated by 11 non-life and 5 life insurance companies. Most insurance companies are owned by foreign insurance companies and groups. Concerning intermediaries on the insurance market, there are 36 insurance brokerage companies, 11 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 2017 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 with highest standards and content, and to meet the needs of the citizens of Republic of Macedonia, 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 the clients through loyal fulfilment of their needs;
- Transparent and honest work;
- Regular collection of receivables;
- Development, expansion and investment in the structure of human resources;
- Informing the public about the products of the Company 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 2017, 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 2017, the Company reached gross written premium in the amount of 733.344.695,00 denars, deployed by insurance classes, as indicated in the table:

WINNER 31.12.2017

		(in MKD)	
		GWP	Net Claims Ratio
01	Accident insurance	67.275.615,00	47,55%
02	Health	590.462,00	35,30%
03	Land vehicle casco insurance	43.187.998,00	43,31%
04	Rail vehicle casco insurance	0,00	0,00%
05	Aircraft casco insurance	6.599.793,00	0,00%
06	Marine, lake and river navigation casco insurance	138.416,00	0,00%
07	Transport insurance	4.777.480,00	0,85%
08	Fire and natural hazard insurance	8.940.610,00	26,24%
09	Other property insurance (w exp. of 3-7)	131.428.079,00	25,34%
10	Land vehicle MTPL	440.762.739,00	44,91%
11	Aircraft liability insurance	1.990.990,00	0,00%

12	Marine, lake and river navigation liab. insurance	189.456,00	0,00%
13	General liability insurance	13.202.499,00	4,00%
14	Credit insurance	0,00	0,00%
15	Guarantee insurance	3.690,00	0,00%
16	Legal expenses insurance	0,00	0,00%
	Assistance travel insurance	14.256.868,00	20,16%
Total		733.344.695,00	39,94%

The gross written premium in the amount of 733.344.695,00 denars represents an decrease of 8,5% compared to 2016. 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 also worked on the possibility of new insurance products introduction, and 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 to keep them profitable.

The achieved gross written premium of 733.344.695,00 denars, presents an decrease of 8,5% compared to 2016. The net earned premium totals 337.229.498,00 denars, which compared to 2016 presents an increase of 1,0%. The investment income increased by 3,3 % compared to 2016. 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 2017 are, generally, highest in the area of claims settlement. The Company paid gross claims in the amount of 294.617.624,00 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.

The decrease in the total revenues did not affect the profits of the Company for 2017, which in comparison with 2016 has increased for 13,6%, but this led to increase of the Company's costs overpassing the planned ones.

During 2017, the Company achieved profit before tax of 54.933.799,00 denars, and net profit of 48.339.416,00 denars. According to reached gross profit the Company attained 15% return on capital in 2017 and 22.24% 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 2017, 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 2017, 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 27.12.2016, the Management Board of the Company adopted Rules for Risk Management enfolding the possible risks during operation in 2017. In addition, the Company implemented the Investment and Risk Strategy for 2017, which was adopted by the Management Board on 29.11.2016, 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 assets, 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.

The person responsible for risk management (Risk Officer), in cooperation with the responsible persons of the organizational units who are the risk holders, during 2017 has coordinated the process of risk management. In addition, the Company has appointed a person responsible for compliance with the regulations (Compliance Officer), who cooperates with the Heads of the organizational units in order to reach full compliance of the Company with the legislative regulations. In 2017, the Compliance Committee, headed by the Compliance officer and composed of Heads of the organizational units, held two meetings.

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 25.000 employees in more than 50 companies in the 25 different countries.

7. Development of the Company

In 2017 the Company developed according the plan and fully met all planned objectives and targets. The success 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 14.12.2017, the Plan of operation for 2018 was approved by the Supervisory Board that envisaged maintaining balanced development in all business segments and improving the success and work performance of the Company. As in the past years, development will

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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 2017, the Company operated on the entire territory of the Republic of Macedonia through its own network of subsidiaries and employees distributed in 30 cities, including 108 insurance agents, 32 brokerage companies, 2 insurance agencies and one bank.

The Company in 2017 had 222 employees of which 172 are involved in sales, and 50 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 the 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. Corporate 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. Zoran Narashanov, Ph.D. – President of the Management Board;
2. Dejan Mihajlov, M.Ec. – 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.

On 31.12.2017, the Supervisory Board consisted of four (4) members:

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 - 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 2017 two sessions of the General Shareholders Meeting were held, i.e. one extraordinary shareholders meeting on 26.01.2017 and one regular/ Annual Shareholders Meeting on 10.04.2017. The extraordinary meeting was convened on 26.01.2017 because the need for amendment to the Statute of the Company in the number of the Company's Supervisory Board members, whereof the number was reduced from five to four members, and because the resignations by part of the members, such as: Michael Hack, Reinhard Grojer and Johann Gürtl and were appointed Wolfgang Petschko and Philipp Bardas. At the Annual General Meeting all annual reports of 2016 were accepted, the operations of all members of the Management Board and the Supervisory Board in 2016 were approved, the distribution of profits for 2016 was decided and the external auditor for 2017 was appointed.

11. Policies and Internal Company Acts

During 2017, the Company adopted several policies in order to improve the corporate governance and also worked on the harmonization of internal acts with new legislation at the same time. In terms of policies the following were adopted: Risk Management Policy, Internal Control System Policy, Underwriting Committee Policy, Steering Committee Policy, and revised existing: Remuneration Policy, Fit and Proper Policy. 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 2017, by decision of the General Shareholders Meeting held on 10.04.2017, 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 2017, 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 733.344.695,00 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 54.933.799,00 denars, which denotes 22,24% return of the share capital and a combined ratio of 82.97%, as well.

These positive results present an excellent introduction to the new 2018, where the Company expects to continue its development and meet all objectives set in the plan of operations for 2018.

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**

