

STOCK COMPANY FOR INSURANCE AND  
REINSURANCE MAKEDONIJA – VIENNA INSURANCE GROUP



# ANNUAL REPORT 2017

Skopje, 2018



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## 1. MANAGEMENT BOARD PRESIDENT'S REPORT

In 2017, Insurance Makedonija s.c. Skopje - Vienna Insurance Group produced positive financial result and achieved profit before tax of MKD 107.1 million and profit after tax of MKD 95.8 million in the economic environment where the GNP reached the total growth of less than 0.5 %.

The key financial factors remained as good as previous years.

However, for 2017 the gross written premium of non-life businesses decreased by 8.8 % or MKD 82.5 million, comparing with 2016. We state precipitous decline in accident insurance by 19 %, in Casco motor insurance by 12 % and property insurance by 22 %, whereas increase in gross written premium for 2017 in terms of general liability businesses by 7 % and compulsory motor insurance by 3 %. We record decrease in incurred claims of 4.9 % or in absolute figure it is MKD 11.1 million.

The operating cost in aggregate value slightly increased by 0.8 % or for total amount of MKD 3.4 million. There is a trivial movement in commissioning paid to insurance representatives and insurance intermediaries.

For the Company insurance portfolio, the property businesses take the largest share of 41.7 %, and then follows the motor vehicle insurance (MTPL) of 30.4 %, the accident insurance of 9.7 % and Casco motor insurance of 8 %. All other classes of business take the share below 5 % respectively.

The combined ratio for 2017 is 90 % which is positive (89 % in 2015 and 95 % in 2016). The combined ratio is the key indicator that the Company is making underwriting profit and every ratio below 100 % proves the profitable operation for the Company.

During 2017 the Company received 405 complaints in terms of claims indemnities which record a significant decrease by 20 % if compared to last year, which is an outstanding result and shows that the Company has excellent claims management processes. All complaints, with no exceptions, were handled within statutory stipulated terms.

Net investment income from rental property shows a very slight increase if compared to 2017, being of 1.1 % or MKD 0.4 million. Regarding the capital investments, in 2017 we have invested the largest amount in the renovation of the façade of the main building of the Company in Skopje, which was the second phase of the facade reconstruction project.

Net investment income earned from government bonds and bank deposits is stable although the interest rates decreased by 0.3 % point index during the year.



At the moment when we prepare and review our annual accounts and financial statements the data on the Macedonian insurance market key figures movement have not been officially published, but insignificant increase in gross written premium is reported in terms of non-life insurance lines which may reach about 1.6 %, whereas the total increase of gross written premium in the market may be about 3.1 % which is mostly attributable to the continuous great increase in premium for life insurance lines by almost 12 %. This year most insurance companies are expected to record profit after tax.

Following the 2018 Business Plan, we forecast increase in gross written premium by 8 % and more in comparison to obtained result for 2017, whereas we estimate the profit after tax slightly to exceed the last year level.

The operating activities of our Company always target the same objectives, which are keeping the good clients, on one hand, and targeting prospects which shall further increase the number of clients, on the other, for those types of insurance products which bring profitable results.

Faced with the unchanged market liquidity, we do not expect tectonic movements in terms of premium collection capacity whereas we forecast the increase in collection of outstanding premium and settlement of old court cases, which will further improve our liquidity, besides the general monotonous market circumstances.

The interest rates on deposits and other securities (government bonds) are expected to keep the same level as that reached in 2017 or even go slightly below. In 2018 we will continue with the disposals of property which is not used for the purpose of the business of the Company or property hardly used for that purpose. Moreover, during the same year the Company will invest in the third phase of the main building façade reconstruction project.

We wish to thank the management team and all staff for their work and engagement and for their contribution in accomplishing the strategic goals of the Company. We also want to thank the two insurance representative companies, their staff and their clients. Without them and without our successful cooperation with brokerage companies under business agreements we could have not achieved these results and had successful business year.

Notwithstanding the difficulties of the economic environment in which we operate we do wish and believe that we will have prosperous and successful 2018 year and therefore we invite all our staff and business partners by taking professional approach to achieve the set targets.

## 2. GENERAL ECONOMIC ENVIRONMENT

The inflation rate, according to the consumer price index for the period from January to December 2017, compared to the same period in 2016, moves by 1.4 %. The trade deficit has retained the same level for the last few years as a result of the export from the Technological Industrial Development Zones (TIDZs) and of the lower oil prices. The unemployment rate is continuously decreasing although the 22 % unemployment rate is still relatively high mainly due to the lack of qualified workforce.

The Credit rating agency “Fitch” has confirmed the “BB-/B” rating with stable outlook for Macedonia as a market, reflecting the risk from increased public and external debt of the Country, as well as the economic prosperity benefiting from the long-term investments.

The banks are well capitalized and profitable. As of December 31, 2017, the annual growth rate of the total deposits is 5.8 %, whereas the annual growth rate of the total loans with 5.6 % is stable and at the 2016 level. The credit growth remains stable, particularly with the households. In May the NBRM has undertaken the macro-prudent measures to further prevent deposit drain and Euro currency pressure. These measures, combined with the foreign exchange market intervention, resulted with successful stabilization of the foreign exchange rate, although vast portion of the population’s deposits did not return to the banks. The loan interest rates continued decreasing.

The establishment and maintenance of the sustainable pension system is an important medium-term goal. Notwithstanding the reforms and the introduction of multiple pension pillars, the pension system is facing a financial disequilibrium due to aging population, on one hand, and lowered revenues in the pension system, on the other (the Government subsidies). The deficit, which is rather very large, and currently 4.5 % of GDP, is projected to double its volume by 2030, if not addressed on time with adequate reforms.

The projected economic growth in 2018 is expected to follow an increase in the job market through opening of new jobs in the free economic zones, as well as through implementation of the publicly financed projects in infrastructure which, alongside the active measures and employment programs, will result with further decrease of 2017 unemployment rate of about 22 %.

The GDP projections for 2018 are of a “soft” growth, considering the uncertainty in terms of the political stability after the age-long political crisis and aim at 3.2% - according to IMF.

## 2.1 MACEDONIAN INSURANCE MARKET

Despite many difficulties that the insurance industry in the Republic of Macedonia challenged with in 2017, it recorded a positive development trend as evidenced by the growth of gross written premium (GWP) and the number of policies issued through various channels of distribution.

The market condition in terms of number of insurers operating on the Macedonian market remains unchanged. Currently there are 16 insurance companies, of which 11 are registered as non-life insurers and 5 as life insurers. Our Company, Insurance Makedonija a.d. Skopje - Vienna Insurance Group is the only insurer licensed to underwrite reinsurance. The analysis of the ownership structure has shown that most of the insurance companies are controlled by the foreign entities of the financial industry.

The number of insurance brokerage companies operating in the insurance market has increased to 35 in 2017 and there are 11 insurance agencies and 3 banks which function as distribution channels.

For 2017 the total gross written premium (GWP) for all classes of business was MKD 8.99 billion, which is an increase by 3.1 % compared to premium underwritten in 2016, whereas our Company, Insurance MAKEDONIJA reported gross written premium for non-life businesses of MKD 7.54 billion, which is an increase by 1.58 % more than the last year.

However, in 2017 as many years before, the largest market share in terms of GWP underwritten for non-life insurance business is taken by Motor Third Party Liability (53.9 %), followed by Property insurance (19 %), Motor Casco insurance (10 %). We can stress here that motor vehicle insurance takes almost 64 % out of the total gross written premium for non-life businesses, but, more important is the fact that premium underwritten for life insurance surpassed the premium of property insurance, which in figures it is MKD 1.45 billion to MKD 1.43 billion.

For 2017, no significant alterations were implemented in the regulations governing the insurance industry, except for the amendments and supplements in the existing Premium Tariff Book of the compulsory Motor Third Party Liability Insurance regarding the malus calculating percentages in terms of the motor fleet insurance.





## 3. COMPANY PROFILE

### 3.1 COMPANY LEGAL STATUS, SEAT AND REGISTRATION DATE

**Company name:**

Stock Company for Insurance and Reinsurance MAKEDONIJA, Skopje - Vienna Insurance Group

**Short name:**

Osiguruvanje MAKEDONIJA s.c. Skopje - Vienna Insurance Group

Registered seat: 11 Oktomvri Street, No. 25, 1000 Skopje

WEB page: [www.insumak.mk](http://www.insumak.mk)

**Company core business description**

The Company underwrites insurance and reinsurance businesses including all classes of non-life insurance. The comprehensive diversity of products embraces different types of property insurance, motor insurance, personal accident, liability insurance and travel insurance covers.

Our Company provides a stable support to major economic industrial entities as well as small and medium enterprises by delivering extensive range of products and services which reasonably satisfy the insurance market needs.

The insurance policies we sell provide perfect and secure protection against risks including individual and family packages to persons and property covers for their tangible and intangible assets.

Data about the size of the Company

Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje - Vienna Insurance Group is considered large business.

### 3.2 CLASSES OF BUSINESS

- 1) Personal Accident Insurance
- 2) Health Insurance
- 3) Motor Vehicle Insurance (Casco)
- 4) Insurance of Railway Vehicles (Casco)
- 5) Aircraft Insurance (Casco)
- 6) Vessel Insurance (Casco)
- 7) Goods in Transit Insurance (Cargo)
- 8) Property Insurance against Risk of Fire and Natural Catastrophes
- 9) Other Property Insurance
- 10) Motor Third Party Liability Insurance
- 11) Aircraft Liability Insurance
- 12) Vessel Liability Insurance
- 13) General Liability
- 14) Credit Insurance
- 15) Warranty Insurance
- 16) Financial Loss Insurance
- 17) Legal Protection Insurance
- 18) Travel Assistance Insurance

## LIST OF INSURANCE AGREEMENTS FOR 2017

<b>LIST OF INSURANCE AGREEMENTS</b>	<b>CLASS</b>
Group personal accident insurance	01
Personal accident insurance	01
Managers and officers accident insurance	01
Sports accident insurance	01
Compulsory personal accident insurance of passengers in the public transport	01
Drivers and passengers and workers accident insurance during operating and driving motor and other vehicles	01
Voluntary personal accident insurance of passengers in the public transport	01
Personal accident insurance for guests in hotels, motels, camps, bungalows, resorts	01
Personal accident insurance for spectators of cultural and sports and other events	01
Personal accident insurance for pupils and students	01
Voluntary group health insurance in the event of critical illness	02
Voluntary group health insurance in the event of surgical interventions/operative procedures	02
Motor vehicle insurance (Casco)	01. 03
Passenger motor vehicle insurance (Casco)	01, 03
Carrier third party liability insurance international and inland road transport	10
Carrier third party liability insurance international and inland road transport by transport organizer	10

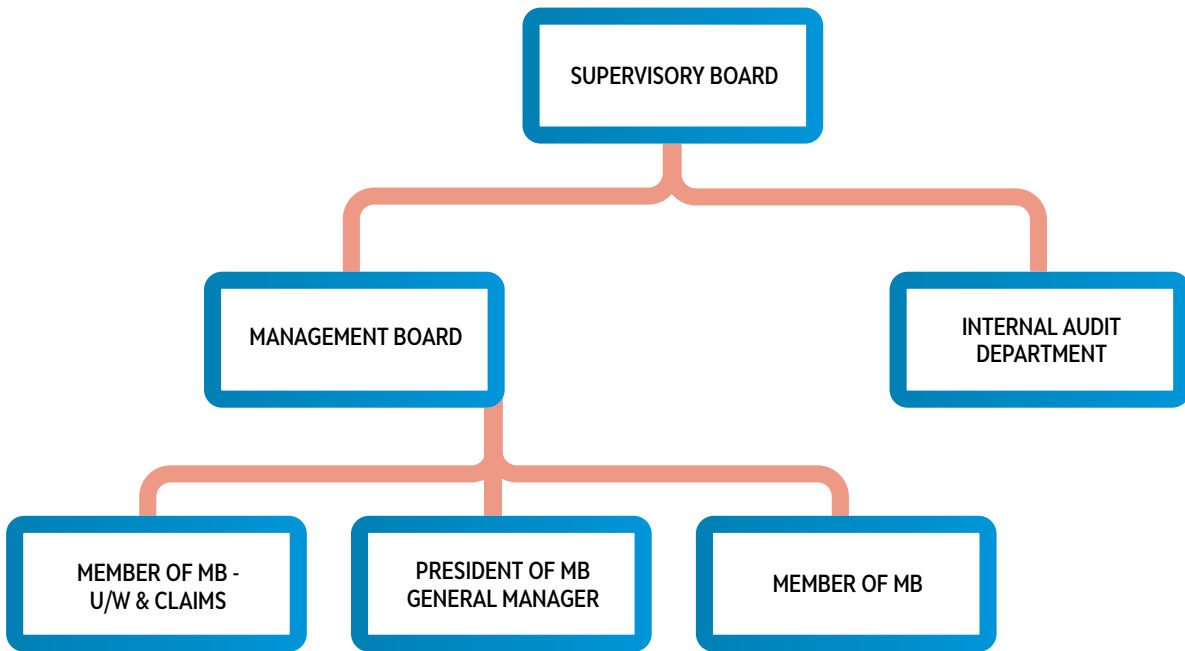
## LIST OF INSURANCE AGREEMENTS FOR 2017

<b>LIST OF INSURANCE AGREEMENTS</b>	<b>CLASS</b>
Domestic cargo	07
Cargo under general policy	07
Goods in international transport	07
Money and other valuables in domestic transport insurance	07
Fire and allied perils	08, 09
Machinery breakdown and allied perils	09
Robbery and burglary insurance	08, 09
Glass breakage insurance	08, 09
Household insurance	08, 09, 13
Construction all risks insurance	08, 09, 13
Erection all risks insurance	08, 09, 13
Low voltage electronic equipment, computers, processors and other devices	08, 09
Property insurance – master policy	08, 09, 16
Property insurance for electric power company	08, 09
Combined household insurance – family package	01, 03, 08, 09
Combined insurance for shops and service providers	10
Commercial combined business insurance	07, 08, 09, 13
Motor third party liability insurance	07, 08, 09, 13, 16
Осигурување од автомобилска одговорност	01, 03, 10

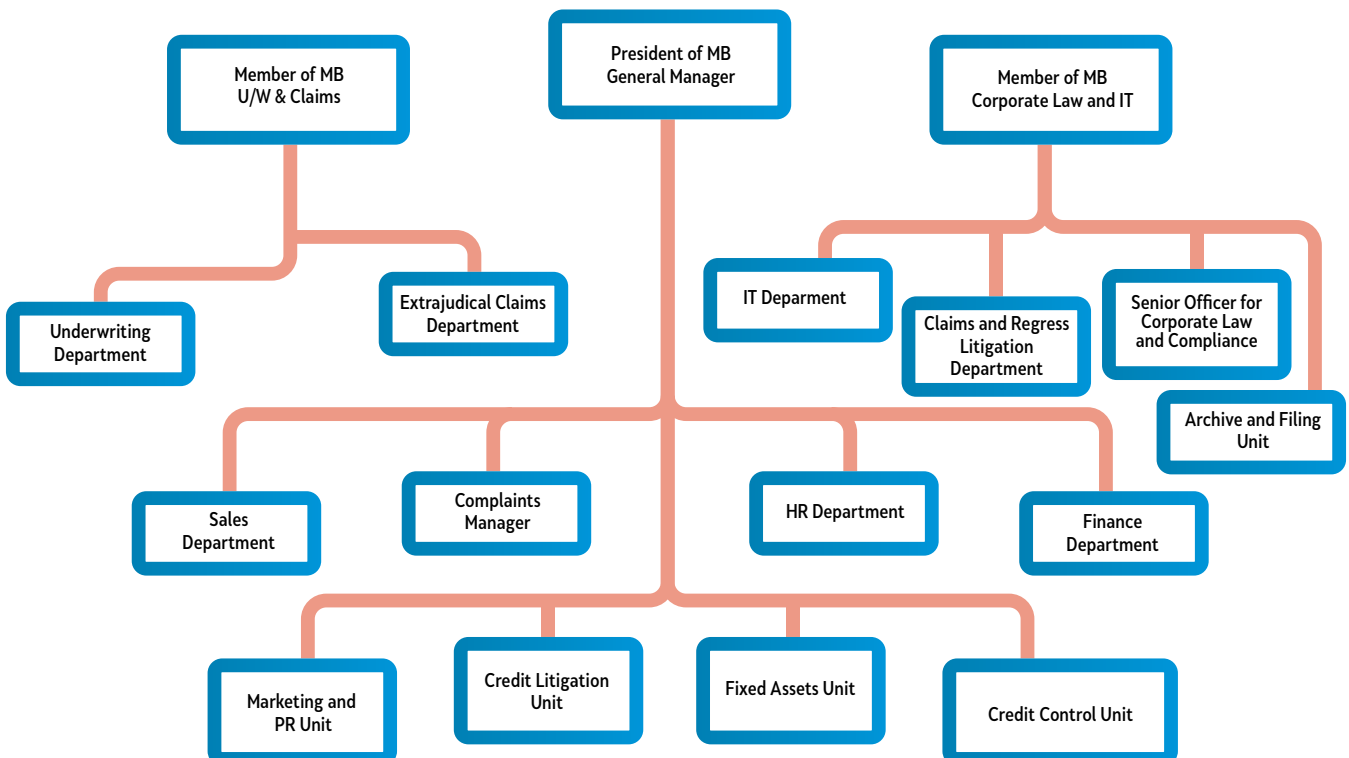
## LIST OF INSURANCE AGREEMENTS FOR 2017

<b>LIST OF INSURANCE AGREEMENTS</b>	<b>CLASS</b>
Ship and motor boat owners third party liability insurance	12
General liability	13
Notary public liability	13
Trustee Liability Insurance	13
Medical malpractice insurance	13
TIR Carnet insurance	15
Fraudulent foreign currency risk insurance	16
Business interruption due to fire and allied perils	16
Travel insurance and additional accident and sports accident insurance	18

### 3.3. COMPANY ORGANISATION



### STOCK COMPANY FOR INSURANCE AND REINSURANCE MAKEDONIJA SKOPJE - VIENNA INSURANCE GROUP





### 3.4 SHARE CAPITAL AND SHAREHOLDERS

Company:	Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje - Vienna Insurance Group		
CRN:	4067037		
VAT No:	4030974258740		
Number of shares	717462		
Nominal value	20,08 Euro		
Nominal capital	14 409 506,81 Euro		
Type of shares	Ordinary shares		
Quotation of shares:	Compulsory quotation / Macedonian Stock Exchange AD Skopje		
<b>OWNERSHIP STRUCTURE</b>			
Shareholders	Number of shares	Number of shareholders	Percentage
Domestic	Legal entity	16 660	48
	Person	22 965	378
Foreign	Legal entity	676 410	4
	Person	1 427	19
Total	717 462	449	100,0 %
<b>MAJOR SHAREHOLDER</b>			
Name of shareholder	VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE		
Registered seat	Vienna, Austria		
Address	Schottenring 30, 1010 Wien, Austria		
CRN	FN 75687 f		
Number of shares	676270		
Total nominal shares	13 582 206.68 Euro		
% shareholder equity	94.26%		
<b>SECOND SHAREHOLDER</b>			
Name of shareholder	MAKEDONSKI TELEKOM AD SKOPJE		
Registered seat	Skopje, R Macedonia		
Address	Kej „13 Noemvri “ no. 6		
CRN	5168660		
VAT No:	4030997339640		
Number of shares	2 994		
Total nominal shares	60 131.5 Euro		
% shareholder equity	0.42%		
<b>THIRD SHAREHOLDER</b>			
Name of shareholder	TIM INZINERING DOOEL Skopje		
Registered seat	Skopje, R Macedonia		
Address	Mile Pop Jordanov street 72/45		
CRN	4638948		
VAT No:	4030993159515		
Number of shares	2 800		
Total nominal shares	56 235.2 Euro		
% shareholder equity	0.39%		



### COMPANY PROFILE

*We focus on providing our customers in Austria and CEE with custom products and services tailored to their needs. Our strategy is geared towards long-term profitability and steady earnings growth, making us a reliable partner in rapidly changing times.*

Over 25,000 employees work for the Vienna Insurance Group (VIG), at around 50 companies in 25 countries. We develop insurance solutions in line with personal and local needs, which has made us one of the leaders in the insurance industry in Austria and Central and Eastern Europe (CEE).

#### EXPERTISE AND STABILITY

The Vienna Insurance Group is an international insurance group headquartered in the Austrian capital. After the fall of the Iron Curtain in 1989, VIG expanded rapidly from a purely Austrian business into an international group. VIG is synonymous with stability and expertise in providing financial protection against risks. The Group's origins date back to 1824. Almost two centuries of experience, coupled with a focus on our core competence of providing insurance coverage, forms a solid and secure basis for the Group's 20 million-plus customers.

#### FOCUS ON CENTRAL AND EASTERN EUROPE

Besides Austria, VIG places a clear emphasis on Central and Eastern Europe as its home market. The Group generates more than half of its premium income in CEE. VIG's operations are also focused on this region. This primarily reflects the forecasts for economic growth in CEE, which is predicted to be twice as high as in Western Europe, as well as the current level of insurance density, which is still well below the EU average.

#### LOCAL MARKET PRESENCE

For VIG, protecting customers financially against risk is a responsibility. The Group pursues a multi-brand strategy based on established local markets as well as local management. Ultimately, the Group's success and closeness to its customers is down to the strengths of each individual brand and local know-how.

#### STRONG FINANCES AND CREDIT RATING

VIG has an A+ rating with stable outlook from well-known rating agency Standard & Poor's, meaning that it remains the top-rated company on the Vienna Stock Exchange's index of leading shares, the ATX. The Vienna Insurance Group is listed in both Vienna and Prague. Wiener Städtische Versicherungsverein – a stable core shareholder with a long-term focus – owns around 70% of VIG's shares. The remaining shares are in free float.

# THE VIG MISSION STATEMENT

## OUR VISION

We want to be the first choice for our customers. Our stakeholders see us as a stable and reliable partner. This enables us to consolidate our position as the leading insurance group in Austria, Central and Eastern Europe.

## OUR MISSION

We stand for stability and competence in the field of risk protection. We use our experience, know-how and diversity to move closer to our customers. We see it as our responsibility to protect the values that matter to our customers.

## OUR VALUES

Diversity  
Customer proximity  
Responsibility

## OUR PROMISE

We enable customers to live a safer and better life: **Protecting what matters.**



### 3.6 SHAREHOLDERS RELATIONS

The information about financial relations with related entities is included in the notes to the final financial statement.

### 3.7 ORGANISATION STRUCTURE

The Company operates through its units including the Head Office and 14 branches across the whole territory of the Republic of Macedonia.

Експозитури	Адреса
1. Skopje	11 Oktomvri 25
2. Bitola	1 Maj 268
3. Stip	Plostad Toso Arsov 56
4. Veles	Dimitar Vlahov 27
5. Tetovo	Ilirija 36
6. Kavadarci	Ilindenska 11
7. Ohrid	Dimitar Vlahov 14
8. Gostivar	Boris Kidric 115
9. Kumanovo	Dimitar Vlahov 52/3
10. Sv.Nikole	Plostad Ilinden 19
11. Kocani	VMRO 47 vlez 24b
12. Gevgelija	Dimitar Vlahov 7
13. Resen	Tase Milosevski 6
14. Prilep	Marsal Tito 36
15. Crossing border Tabanovce	

The offices have diferent departments and units which carry out key functions and the regular operations of the Company.



## 4. RISK MANAGEMENT

The Company undertakes continuous activities for identification, assessment and evaluation and control of risks that the Company is exposed to in the course of its operation and manages those risks in such a manner that permanent sustainability of exposure level is obtained to avoid any risk to Company's capital and its operation and continue its responsibility for protecting and managing the shareholders' interests and protect policy holders, third party claimants and other creditors of the Company in compliance with the statutory regulations and legal requirements. The risk management process has been defined by a special program which is reviewed and approved by the managing body and the supervisory body of the Company once a year. The Program is regularly delivered to the regulator. The risk management program is prepared in line with the principles set out in Pillar 2 (Solvency II) and follows the guidelines made available by Vienna Insurance Group (VIG) to non-EU member companies.

Because of its activities, the Company is exposed to a large number of risks. These includes traditional underwriting risks, non-life risk and health risk, and risks due to investments (market risk), and a number of general risks such as credit risk and operational risk. Besides these, the Company is also exposed to many other common risks that other trading companies have been exposed to, like: reputational risk and strategic risk.

The Company operates in a way which ensures that the risks the Company has been exposed to in the course of its operation shall not exceed the level of risk tolerance limited by the Law on insurance supervision.

The risk management organization is firmly anchored in the management culture of the Company and is based on a clearly defined risk policy and extensive risk expertise. The proper risk awareness throughout the Company with clear definitions of roles and responsibilities are of great importance. Every employee should understand the need and necessity of risk management, primarily being actively engaged into the process. The effective risk management system comprised of strategies and processes shall ensure the undisturbed flow of information from the Management Board to the operating executive level and back.

The Company has put in place the risk management system which embraces the organizational units and risk management processes. The risk management organizational units include all Company departments and offices and the decision making bodies that have been involved in the risk management system. The Management Board is fully responsible for the efficiency and effectiveness of the risk management system.

Furthermore, for the purpose that the risk management culture of the Company is strengthened and the risk owners further integrated into the risk management processes, the Risk Management Committee has been established upon decision approved by the Management Board.

The risk management processes have been embedded into the risk management organizational units.

The risk management processes are composed of 6 important steps or phases:

- Risk identification
- Risk assessment
- Risk treatment analysis
- Risk decision and execution
- Risk monitoring
- Reporting τ.

During 2017 the Company carried out two processes based on the risk management system of the Group, such are internal control system and risk inventory.

- The internal control system is a continuous process of managing operational risks and it provides effective controls not only in terms of compliance with the statutory regulations and legal requirements, but it is also an important tool for proper business decision-making.
- The Risk Inventory process is established to support the Company in the task to completely identify and assess the risks adequately and provide information on the complete risk profile of the Company and risk owners and thus supports the management to adopt an optimal course of action with respect to the Company's risk strategy.

Qualitatively evaluated risks are assessed by expert judgement or by determining frequency and severity according to the given classification in the "Frequency Severity Table".

Based on the risk evaluation process the internal control system has identified 260 risks and the effectiveness and efficiency of the control reached the level of 98.7%.

All relevant risks that the Company is exposed to are identified and the risk catalogue is created which is composed of 9 risk categories including their sub risks.

#### **4. Market risk**

- 4.1. Interest rate risk
- 4.2. Equity risk
- 4.3. Property risk
- 4.4. Spread risk
- 4.5. Concentration risk
- 4.6. Currency risk

#### **5. Non-life underwriting risk**

- 5.1. Non-life premium and reserve risk
- 5.2. Non-life lapse risk
- 5.3. Non-life catastrophe risk
- 5.4. Non-life concentration risk

#### **6. Health underwriting risk**

- 6.1. Health premium and reserve risk
- 6.2. Health lapse risk
- 6.3. Health catastrophe risk

#### **7. Intangible asset risk**

## **8. Counterparty default risk**

8.1. Type 1- Counterparty default risk reflect possible losses due to unexpected default of the counterparty not covered against spread risk

8.1.1. Reinsurer default risk

8.1.2. Financial institutions default risk

8.1.3. Third Party default risk

8.2. Type 2 – Counterparty default risk where exposure is diversified and not covered under type 1 and against spread

## **9. Liquidity risk**

## **10. Operational risk**

10.1. Business disruption risk

10.2. Know-how concentration risk

10.3. Insufficient human resources

10.4. Hardware and infrastructure risk

10.5. IT software and security risk

10.6. Model and data quality risk

10.7. IT development risk

10.8. Project risk

10.9. Insurance related legal and compliance risk

10.10. Other legal and compliance risk

10.11. Process and organization risk

10.12. Human error

## **11. Strategic risk**

## **12. Reputational risk**

## **Market risk**

Market risk is the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices of trading financial instruments (interest rates fluctuation, foreign exchange rates, property market price, stock price and etc.).

The Company shall be capable to promptly and thoroughly meet its liabilities to third parties arising from the insurance contracts in a suitable manner. Therefore, the investments shall be placed in compliance with the investment terms and the maturity of liabilities. When placing investments the Company shall pay considerable attention to diversity of subjects and financial instruments that the funds have been invested in for the purpose of obtaining appropriate return on investment. Considering the insurance assets, the interest rates for investing insurance funds shall be adjusted to the money market rates movement and capital market rates movement for the purpose that the actual value of the invested funds is retained and increased thereafter. Most of the insurance contracts concluded by the Company are mainly short term insurance contracts and the interest risk is mitigated by matching the insurance liabilities with a portfolio of debt securities. Moreover, the market for securities is closely monitored and following any movement thereof the value of securities invested is calculated accordingly. The movements in market prices of trading financial instruments portfolio and real property portfolio are analysed.

Considering the insurance contracts made in foreign currency, the foreign exchange rate fluctuation should be monitored as well. The Company manages the foreign exchange rate risk primarily through adjusting the receivables in foreign currency and liabilities in foreign currency. Moreover, this relation of receivables and liabilities in foreign currency is maintained in terms of maturity of the liabilities and receivables. Measuring foreign exchange rate risk exposure apply different methods: follow up and analysis of FX risk by separate positions and in aggregate, foreign currency structure in the balance sheet, foreign currency funds structure, stress-test and other methods. The mostly used currency is Euro. The foreign exchange rate of the Macedonian currency and its stability, foreign exchange reserves in the Central Bank and any actions within its capacity and the monetary policy of the Central Bank are factors which directly or indirectly affect and determine the level of risk exposure of the Company.

The allowed groups of investment funds and how they are placed are more closely described in the articles of Insurance Supervision Law. The Company regularly adjusts its investments in terms of funds covering technical reserves being exposed to risks of potential loss due to interest rates movement, foreign exchange rate fluctuation, credit risk and other market risks to its obligations and responsibilities imposed by the insurance contracts that are affected by all these changes.

The funds covering technical reserves may be invested in accordance with provisions of the Insurance Supervision Law.

The Company keeps bookkeeping and operation records whereby the access is allowed to any investment assets recorded by beneficiaries and investment terms.

## **Non-life underwriting risk**

Non-life underwriting risk that the Company is exposed to when meeting its liabilities arising from non-life insurance contracts and reinsurance treaties in terms of assumed risks and operating processes is seriously analyzed. The exposure to this risk means that the Company may not pay future claims out of the premium income fund or that the technical reserve volume is not sufficient, because the actual forthcoming expenses and claims differ in value from the anticipated amounts considered in the forecast for the technical reserves.

A proper management and a comprehensive and sound understanding of this risk are crucial for the Company as its risk profile includes almost all classes of non-life insurance businesses.

This risk may be controlled by establishing appropriate underwriting procedures and policies. Moreover, underwriting authorities have been delegated to all underwriters, internal sales agents and insurance representatives. The profitability of any particular class of business has been monitored regularly as are the segments that may affect the results in terms of their deterioration. The detection thereof is performed on a regular basis. The integrated system of evidence and data processing ensure access to any particular client considering their results whereas good clients are selected and separate insurance product portfolios are established which may generate satisfying results. Within its current activities the Company analyzes the present terms and conditions for insurance and introduces amendments and supplements thereto and prepares new products to launch in the market.

The Company provides many different reinsurance contracts including the catastrophe

excess of loss reinsurance treaty whereby the Company transfers a portion of the risk to the reinsurer in order to limit the potential net loss, thus diversifying the risk. For the purposes of ensuring permanent meeting of liabilities arising from the insurance agreements, the Company shall set up technical provisions. Quarterly reports are submitted to the regulator on the amount of technical reserve, accompanied by the authorized actuary's opinion and the current analysis of the applied assumptions on and testing the adequacy of the reserves.

## **Counterparty default risk**

This risk is defined as potential loss or unfavorable changes in market prices of financial instruments or value arising from aggravated financial condition of the clients and their incapacity to pay the debt or the respective amount within agreed terms.

Insurance MAKEDONIJA manages this risk primarily through underwriting process by client's statement of accounts code analysis and client's solvency analysis. The receivables are monitored on a monthly basis and the percentage likelihood of collecting the receivables is determined. On the basis of the assessed position the internal rating is defined in terms of the amount of receivables falling due and respective premium receivables provision and it is the Credit Control that ensures collection of receivables.

In compliance with the Insurance Supervision Law or more precisely considering the limits imposed on investments of funds covering technical reserves and the capital itself, the Company in order to disperse the risk place investments in deposits with several large banks and securities issued by the Government or the National Bank of RM.

The Company holds quoted securities and debt securities reserved up to their maturity date, i.e. treasury bills issued by the Government.

In order to ensure that the possible risk of any failure of reinsurers to meet their liabilities is mitigated, the Company has put in place an internal process whereby the selection of an reinsurer/broker is based on their ratings provided by official rating agencies(S&P, AM Best, Moody's) as well as VIG group strategy.

The Company has entered into business agreements with local brokerage companies and insurance representative agencies which fully comply with the operating requirements governed by the Law on Insurance Supervision and in terms of their business activities they are granted licenses by the Insurance Supervision Agency. Prior to signing off any business agreements, the Company ensures that the respective channel of distribution is financially stable and has put in place adequate business and sales processes and procedures that comply with the operation and business policy of the Company.

## **Liquidity risk**

The Liquidity risk is the potential that the Company will be unable to acquire the cash required to meet short term obligations on maturity date or the cash or cash equivalents required will be acquired at higher cost.

The liquidity risk management will ensure that the assets and liabilities are properly managed in a way that the liabilities are met in a promptly manner under any normal operating circumstances or in an emergency. Planning the expected inflow and



outflow ensures regular control over liquidity position and establishes preventive or eliminating measures against any possible liquidity risk. As of 31.12.2017 the liquidity ratio is 12.89. For 2017 the Company sustained stable current liquidity position and maintained the liquidity above the minimum requirement in line with determined internal limits.

## Operational risk

The operation risk is the risk of potential loss related to inadequate or failed internal processes and controls caused by employees, the system or unfavorable external events. The operational risk includes the legal risk but excludes the strategic and reputational risk.

All risk owners are involved in the assessment and control of the respective risk due to the fact that the risk may affect any segment of the operation. Qualitative assessment method is performed and all sub risks (specified in the risk catalogue) together with the risk owners, evaluation methods, results, implemented controls and the applicability are to be documented into the matrix of the internal control system, and the aggregate result of the operational risk assessment is documented into the matrix of the risk catalogue.

The Company manages this risk by establishing a significant number of controls for every sub risk respectively and implementing security controls, written policies, rulebooks and guidelines.

This risk control ensures continuous adequate employees performance management, education, delegation of duties and assignments and measures for achievements in their performances so that the Company may reach its strategic goals and operate in compliance with legal requirements and financial regulations.

The Company has in place Business Continuity Plan (BCP). The selected management team hold rights, obligations and responsibilities to ensure business continuity of the Company in situations, circumstances and incidents that may not be predicted but may have significant adverse effect on its operation. Particular responsibility of BCP is to ensure safety and security of IT system of the Company with respect to data and information security that are crucial for its business.

In order to support main activities of the Company with reference to prompt and correct data delivery highly effective operating IT systems have been developed in terms of underwriting, reinsurance and claims. Along with aforementioned systems there are systems supporting human resource, financing and other businesses of the Company. The security of the foregoing operating systems is ensured by adequately installed hardware equipment, by following the IT security policies and procedures and by remarkably skilled personnel.

The control is achieved by implementing particular IT security policies and procedures, holding licenses on IT operating systems and ensuring secure backup copies. The high level control over the access to IT system shall ensure safeguard to unauthorized access to information and data on business activities of the Company.

The Company has created and implemented special compliance policies and procedures and the risk control ensures that the Company operates in compliance with statutory regulations and legal requirements and fulfills its obligation to manage risks that may arise out of legislative requirements, or risks with legal consequences. The control is carried out through implementation of working tasks defined with compliance function policy and procedure act. Through appropriate

and timely support, it is ensured that all employees may carry out their duties in compliance with legal requirements and bylaws. The employees are informed on time about any significant changes to regulatory environment that may affect their tasks and performance. The correct business cooperation and communication with governmental bodies and regulatory authorities being part thereof may ensure that all legislative and regulatory requirements are met by the Company and any sanctions by authorities avoided.

In 2017, the Company implemented the identification of compliance risk process (Compliance Risk Inventory Process). This process was carried out alongside the general risk identification processes and internal risk controls. During this process, 51 compliance risks were identified.

The risks are divided into two risk group, including sub risks.

1. Insurance related legal and compliance risk
2. Other legal and compliance risk:

- economic sanctions and embargoes
- data protection and privacy
- competition law
- capital market regulations
- financial crimes
- the code of business ethics

The result from the risk inventory related to the compliance risk carried out in 2017 has confirmed that the Company has established adequate risk control mechanisms. The Company appropriately controls all compliance risks. The risk profile is low.

Regarding the identification of compliance risks, the professional teams of the Company prepare reports to the managing body and to relevant units of the majority shareholder.

Among others, there are two more risks:

**Strategic risk** – is the risk of adverse business development related to poor business and investment decisions, or to inadequate communication and implementation of goals, or to a lack of adjustment capacity to changes in the economic environment.

The control of this risk principally undertakes the preparation and implementation of the business plan and business strategy that covers multiple years and the business plan is approved by the Supervisory Board. The Company is devoted to business plan and strategy prepared following the actual results of the current year, new products development and improvement of the channels of distribution and acquisitions by taking into consideration the particular impacts of the local environment. Generally, the business strategies are set to direct the activities towards profitable outcomes and avoid any financial loss and towards optimization of the function processes.

The established business strategy is being continuously monitored by issuing reports on the actual versus planned activities including the results on achieved premium level, premium rates changes, technical results, expenses and the overall profitability of any class of business. The circle of insurance market has been closely monitored on a regular basis in relation to changes in premium rates followed by changes of premium, deductibles and insurance terms and conditions. The approach of the competition to market conditions is also monitored in order to avoid their attempt to disturb the established business strategy in relation to new products and sales network.

The main goal of the Company is to maintain its image of a trusted insurance company with optimized risk/profit ratio.

**Reputational risk** is the risk of adverse business development associated with damage to the Company's reputation. A loss of reputation can disrupt the confidence of customers, investors, or employees in the Company, and thus may lead to financial damage.

In the course of its operation the Company always strives to maintain a good business culture, market transparency, offer products where to the insurance terms and tariffs are precisely defined, and remain customer oriented and focused and increase the quality service delivery and be socially active corporation engaged in many different social projects affecting the community.

## Capital risk

The Company determines the capital volume and the minimum capital requirement in compliance with the minimum capital requirement regulation stipulated by the Insurance Supervision Agency. The Company is required to hold a certain amount of funds in relation to the scope of business and the class of business in order to meet its liabilities arising from the insurance agreements and control and manage the risks the Company has been exposed to in the course of its operation.

The Company calculates the solvency margin in accordance with the article 75 paragraph 1(Solvency I Directive requirement) and the guarantee fund in line with the article 77 of the Law on Insurance Supervision.

IN 000 MKD	2017	2016
SOLVENCY MARGIN	100 877	109 825
GUARANTEE CAPITAL	276 708	276 665

## 5. CORPORATE GOVERNANCE

The corporate governance assumes the continuous compliance of the operating activities of the Company with statutory regulations and legal requirements in our country. Pursuant to regulations and provisions laid down by the Law on Trade Companies and the requirements set by the Law on Insurance Supervision and the Statute of the Stock Company for Insurance and Reinsurance MAKEDONIJA, Skopje - Vienna Insurance Group, the Company has established two-tier government system. The Management Board comprises three (3) members whereas the Supervisory Board comprises five (5) members.

The main characteristic of the corporate governance of the Company as an insurance company is the interaction established with the local regulator in compliance with the provisions laid down by the Law on Insurance Supervision. The managing and supervisory activities of the Company are regulated by special rulebooks where the detailed distribution of responsibilities and assignment of duties and functions to the members of the management board are determined.

The corporate governance function of the Company specially relies on transparency. Therefore, the members of the Management Board are committed to ensure adequate and timely information to all interested parties. The electronic system of the Macedonian Stock Exchange SC Skopje on listed companies provides all relevant information about the operation of the Company and many useful information can be found on the web site of the Company.

### 5.1 SUPERVISORY BOARD

The responsibilities and duties of the Supervisory board of the Company are determined in the applicable regulations. Additionally, certain rulebooks of the Company also detail the duties and responsibilities of the supervisory board members.

As of 31.12.2017, the members of the Supervisory Board of the Company are:

**Mr. Lehel Gabor, Chairman of the Supervisory Board;**

**Mr. Andreja Josifovski, member of the Supervisory Board;**

**Mr. Wolfgang Petschko, member of the Supervisory Board;**

**Mr. Reinhard Gojer, independent member of the Supervisory Board;**

**Mr. Michael Hack, independent member of the Supervisory Board.**

During 2017 the Supervisory Board of the Company held four (4) sessions in total whereat the Board undertook all activities relating to the supervision function, approval of certain decisions submitted by the Management board in terms of business policy and financial plans, representing the Company to the members of the Management Board, maintaining and improving the objectivity and professional functioning of the internal audit, reviewing certain findings and decisions of the regulatory body and protecting shareholders wealth.

By analyzing relevant reports, approving special rulebooks and activities submitted by the Management Board, the Supervisory Board has fully achieved its control function. The meetings of the Supervisory Board were conducted in compliance with the applicable regulations. All decisions adopted by the Supervisory Board at the sessions held in 2017 are recorded in apposite reports. The adopted decisions have been

implemented in a proper manner within the Company and carried out following the instructions of the competent authorities.

## 5.2 MANAGEMENT BOARD

The Management Board manage the Company, ensure that the Company operates in compliance with the risk management principles and Law on Insurance Supervision, control the business risks, ensure the Company keep business records and other accounting documentation, evaluate the items in the balance sheets and prepare periodic and annual reports. The organizational structure and the Management Board function fully comply with the applicable regulations.

In accordance with the provisions of the Statute, the Management Board of the Company consists of three (3) members, one of whom is the president. As of 31.12.2017, the members of the Management Board of the Company are:

- **Mr. Bosko Andov, President of the Management Board;**
- **Ms. Vesna Gjorceva, member of the Management Board;**
- **Mr. Risto Sekulovski, member of the Management Board.**

In order to maintain and improve the market share and keep the competing position of the Company, during 2017 the Management Board has followed the insurance industry market and thoroughly reviewed the operating reports of other insurance companies presented by the Insurance Supervision Agency and the National Insurance Bureau. The Management Board constantly monitors the liquidity and solvency margin of the Company, the volume of reserves determined by the Law on Insurance Supervision, underwriting and claim handling processes, which are the key elements for successful operation of the Company. For the Management Board it is of great importance the EU Directives related to insurance market regulations.

During 2017 the Management Board within its authority took a number of activities including adoptions of decisions and rulebooks and issuance of documents which regulate and govern the business policies and strategies. All decisions were adopted in line with the provisions of the applicable regulations. The Management Board undertook all necessary and required preparatory actions related to the functioning of the internal audit and the supervisory board. The prompt notification to the Supervisory Board ensured operational functionality and effectiveness of the supervision. In the reporting period the Management Board provided unconditional support to all organizational units and employees of the Company participating in various projects and procedures and maintaining communication with government bodies (state administration) and local municipalities.

In the period from 01.01.2017 to 31.12.2017, the Management Board of the Company held 48 sessions in total. All members of the Board gave adequate and significant contribution to the functioning of the board.

All decisions of the board are adopted in a transparent procedure and supported by necessary documentation. The minutes were issued for any meeting and signed by all members of the Management Board as required under local law.

## 5.3 MANAGEMENT

Management Team

- **Mrs. Jasminka Ilieva, Underwriting Manager**
- **Mrs. Tatjana Dimov, Disputed Claims and Recourses Manager**
- **Mrs. Margareta Popovska-Goseva, Financial Manager**
- **Ms. Vesna Bogdanovska, HR Manager**
- **Mrs. Kevser Lalicic, IT Manager**
- **Mrs. Tatjana Ansarova - Jovanovska, Internal Audit Manager**
- **Mr. Zoran Todorovski, Out-of-Court Claims Settlement Manager**
- **Mr. Zoran Aleksovski, Regional Sales Manager**
- **Mr. Marjan Orucoski, Regional Sales Manager**
- **Mr. Filip Meskov, Non-Agent Sales Manager**

## 6. INTERNAL AND EXTERNAL AUDIT

### 6.1 INTERNAL AUDIT

During 2017 the Internal Audit of the Company in accordance with the Annual Plan, carried out 7 internal audits covering all key operational functions of the Company.

The Internal Audit report states 3 findings which were ranged as low risk. If compared with the last year the number of reported findings has significantly decreased, all opinions were “excellent” and no findings were registered which originate from the previous years nor repeating ones, which leads to conclusion that the Company has set efficient and effective internal controls.

The opinion of the Internal Audit was “Excellent” for reviewed functions of the Company, which means that the functioning of the implemented internal controls over the reviewed functions was assessed effective and efficient from all material aspects.

The activities agreed with the Management team to eliminate the determined findings were completed in defined manner and within set deadlines.

### 6.2 EXTERNAL AUDIT

The external audit for 2017 is the audit company KPMG MAKEDONIJA DOO Skopje, with CRN: 5078598, VAT: 4030996107850 and registered seat at Filip The Second Macedonia Boulevard, no. 3, TC Soravia, 7th Floor, 1000 Skopje.

This Audit Company has been appointed by the Company assembly of Shareholders by the Decision 02-4027/7 at their regular meeting held on 28/04/2017. In accordance with the Law on Insurance Supervision the Insurance Supervision Agency has issued an official decision approving that the Audit Company KPMG MAKEDONIJA DOO Skopje may review and audit the financial statements of the Company for 2017.







## 7. ACTUARIAL CERTIFICATE

Opinion on the financial situation of the Company as stated in the financial statements and the annual report.

The final opinion on the financial situation of the Company as stated in the financial statements and the annual business report is

- a) positive opinion                      b) qualified opinion                      c) negative opinion

The positive opinion on the financial situation of the Company as stated in the financial statements and the annual report of the Company has been supported by the following arguments:

The Company has only carried out the registered activities during the reporting period. The Company applies the adopted insurance terms and conditions and premium tariffs.

The Company capital exceeds the required level of solvency margin and the guarantee capital in compliance with the statutory regulations and Company business policy.

The estimated technical provisions satisfy the requirements set by the provisions of the adopted book of regulations and the recognized actuarial standards.

The Company delivers prompt and regular claims handling services and effect prompt and regular payments of already settled claims.

For 2017 the Company produced positive financial result.

The Company has calculated the premiums and the technical reserves in accordance with the Insurance Supervision Law and the Rule Book on minimum standards for calculation of technical provisions.

Having considered the achieved good technical result for this year (claims ratio), Company capital and the technical reserves policy, we may conclude that the Company has full capacity to meet its liabilities arising out of insurance agreements on a regular and long term basis.

*Actuary*

Gordana Minoska  
Jasminka Ilieva

## 8. BUSINESS POLICY AND OBJECTIVES

### 8.1. MAIN OBJECTIVES

Main objectives of the Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje – Vienna Insurance Group is to ensure achievement of net insurance profit and gains from investment assets and meet its liabilities arising from insurance contracts with clients and manage successful governance, provide education and improvement to the employees and other representatives of the Company.

The main activities of the Company to achieve the targeted objectives will be:

- Maximum presence on the insurance market and stock exchange;
- Diversify insurance portfolio and quality development of the portfolio;
- Improvement of quality service delivery;
- Relative decrease in the operating expenses;
- Optimised excess of risk placement for co-insurance and reinsurance to retain portfolio stability;
- Optimally secured and effective collection, utilisation and investment of financial funds and adequate records thereof;
- Sustain required liquidity and solvency level;
- Achieve complete business organisation and technology development and improvement.

## **8.2 STRATEGIC DEVELOPMENT STREAMS**

- Continuous, dynamic and stable development by increasing the economic strength of the Company based on a permanently positive financial result.
- Maintain consistent solvency and liquidity above the average local insurance market level.
- Persistent improvement for effective and reasonable utilization of insurance funds, improvement of working processes and procedures, sustain the number of staff below 170 to the end of 2018 with no adverse effects on the everyday operation of the Company.
- Mitigate and gradually eliminate subjective obstacles and mitigate the dependence on the objective difficulties that affect the growth and insurance development of the Company.
- Permanent improvement and development of the professional knowledge and competence, working habits and creativity of staff in the Company to affect quality work.

## **8.3 BUSINESS EFFICIENCY**

Based on the objectives and strategic development streams stated above, particular concern shall be made to achieve the following business efficiency criteria:

Optimal positive financial results with reference to total income and especially to insurance premium;

- Achieve low combined operating ratio providing positive financial result or profitable underwriting result as stimulating profit for shareholders;
- Effective claim handling process, that is the number of settled claims in relation to reported claims;
- Relative decrease of operating cost in reference to total income;
- Premium increase per employee of the Company;
- Increase the interest yield of available investment funds;

## **8.4 STABLE SOLVENCY AND LIQUIDITY**

The Company shall ensure that at any time it may operate and meet its liabilities to third parties which prove the high liquidity ratio of the Company. The Company shall ensure that it follows statutory regulations and requirements regarding approved funds for covering technical reserves.

In the course of its business the Company shall comply with all economic, insurance and actuary principles to sustain profitable operation and with all statutory regulations and legal requirements which govern the insurance industry.

## **9. OPERATING PERFORMANCE**

### **9.1 UNDERWRITING**

The Underwriting Department includes the Underwriting Office and Sales Support Centre.

The Underwriting staff remains devoted to controlled underwriting approach which ensured stable and profitable portfolios and achievement of positive underwriting results in general.

For 2017 we kept the trend of keeping positive technical result for property insurance and providing high quality protection to the property of our clients. The achieved positive underwriting result for property businesses is by 11% better than the result achieved last year, which allowed us to keep our leading role on the market for these classes of business. The analysis of the reported results achieved in motor vehicle insurances show improved underwriting result by 20% in comparison to the last year achievement, despite strong competition among insurers offering these classes of business and achieved stable portfolio and profitable growth. Considering other classes of business we continued the trend of keeping our clients satisfied by offering underwriting solutions to different categories of clients to ensure profitable business and fulfilment of clients' needs.

During 2017, in order to develop and improve the current insurance products we introduced many amendments and alternations in certain insurance terms and conditions and premium tariffs for many different products as a reply to rapidly changing market demands. Moreover, we have introduced a new class of business – Health insurance which is gradually taking more share of the insurance market, thus enabling our customers a greater range of products in order to provide them with improved quality insurance and protection. Our underwriters committed most of their time to create and develop new products and optimize the current products, offer products tailor-made to satisfy needs of specific clients, perform comprehensive risk survey before acceptance to insurance and make thorough analysis of the results by different clients and by different insurance portfolios. Furthermore, underwriters monitor and analyze the technical results by different clients, by different risks and by the portfolio in total.

The Sales Support Centre continues to perform its activities for the purpose of ensuring complete and prompt administration of insurance policies and provides full support to sales force by operating under applicable system solutions and processes. During 2017 the SSC managed to process more than 75,000 cases and most of these cases referred to motor vehicle policies and policies issued to persons, but no less significant engagement was made in processing the cases in relation to other classes of business, especially property insurance, transport and liability insurance policies. Additionally, the tariff control is a significant ring in the risk management and control chain within underwriting process.

The underwriting department is very well organized and underwrites are committed to their effective and efficient performance and satisfaction of the clients' demands for different classes of business which ensure positive technical result and contribute to profitable operation of our Company.

## 9.2 SALES

The sales force network of the Company is organised in a way that it provides availability of the insurance products to clients through various distribution channels for the purpose that the market needs will always be met. Our sales agent network for direct sale is organised in West and East Region teams within Sales Agents Unit and the insurance representative agencies which are external sales network. The sales force network is composed of well experienced and trained sales agents and also functions as another source for recruiting new insurance representatives, which will result in increase of our market share.

Non-Agent sales cover the market need of clients which request comparative insurance covers offered by insurance brokers, banks, travel agencies and other partners.

### SALES AGENTS AND SALES AGENCIES AND REPRESENTATIVES

#### The East Sales Region

For 2017 the East Region reported written premium of MKD 359.9 million and compared with the result of MKD 443.7 million reported for 2016 it shows a decrease of MKD 83.8 million. In fact, the planned sales volume of MKD 390 million was not achieved due to many specific circumstances. The main reason for this underperformance was the significant decline of the premium volume for our client ELEM because they failed to renew insurance policies for certain classes of business and due to decrease of premium. In 2017 the cooperation failed with some sales agencies selling MTPL policies located in different towns in this region, mostly due to increased volume of claims and insignificant premium collection. Alongside these circumstances, the 2018 sales target is MKD 392.5 million, which is an increase of 9% in comparison to 2017.

During 2017 we enlarged the sales network and engaged several new insurance representatives and sales agents offering them proper working facilities. The enrollment of new sales agents and insurance representatives we expect to begin early this year when the Insurance Supervision agency will start the professional training and licensing.

#### The West Sales Region

The West Region completed the 2017 obtaining gross written premium of MKD 224.5 million and in comparison to 2016 result where the written premium was 219.6 million, we report an increase of 2.2% or MKD 4.9 million. The 2017 planned sales volume of MKD 250 million is budgeted for 2018 as well. We achieved positive results in 2017 which make our performance partially successful because we did not reach the targeted goal but we outperformed the last year result. It is the compulsory motor insurance which still keeps the leading position among other classes of business in the portfolio structure of 42.5%.

#### **The main strategic goals of the West Sales Region for 2017 were:**

- Achieve 2017 goals and targets
- Premium collection
- Sales network improvement and development
- Active participation in the market and satisfaction of client's needs.

During 2017, the Western Region focused on the achievement of the budgeted goals and objectives in line with the business plan and bringing its operating strategy closer to potential clients. The premium collection in 2017 retained the volume of 2016.

In 2017 we continued the process of building our own external sales network and improving our potentials through:

- Create active sales network
- Retain the current and engage new sales agents and insurance representatives involved in building their own sales network
- Continue the education process and supervision over the external insurance representatives under direct monitoring by internal coordinators.
- Open new points of sales in line with the market needs and Company strategy.

### **2018 Plan and projection:**

- Achieve budgeted goals and targets
- Increase insurance portfolio
- Develop and increase sales network

### **Non-Agent Sales**

The Non-Agent Sales completed the 2017 obtaining gross written premium of MKD 188.6 million and in comparison to 2016 result where the written premium was 174.6, we report an increase of 7.5% or MKD 14 million. The 2017 planned sales volume was MKD 200 million whereas the 2018 budgeted target is MKD 221 million.

For 2017 Non-Agent Sales covered almost 22.1% of the Company portfolio and its results were achieved by writing insurance businesses through several distribution channels:

- Insurance brokerage companies;
- Banks;
- Travel agencies.

The successful business cooperation with brokers and brokerage companies sustained its intensity even in 2017. It is the Promoter who is responsible to cooperate with the brokerage companies. The Promoter offers them insurance proposals and policies with the most convenient insurance covers for their clients for all lines of business underwritten by Osiguruvanje MAKEDONIJA.

During 2017 the sales of insurance policies through brokerage companies intensified which resulted in the increased sales of policies in terms of MTPL, Green Card and Border insurances. We also reported increase in the sales of property policies.

The total premium invoiced by brokerage companies for 2017 reached MKD 177 million which is an increase of 10% in comparison to 2016 result, out of which MKD 56 million is the premium invoiced under MTPL policies, Green card policies and Border policies.

The sales of MTPL policies show increase by 11% or MKD 6 million in comparison to the previous year.

Beside MTPL and Green Card policies in terms of other lines of business we reported increase of about 8% or the amount of MKD 10 million compared to 2016.

### 9.3 OUT-OF-COURT SETTLEMENT

On the very top of our priority list is the claim handling management. It is very important for our Company to continue applying effective and efficient claim handling philosophy which has enormous effect on our profitability as well the reputation and brand awareness we try to sustain. The excellent technical capacity and business knowledge for all insurance products that our team has and the innovative solutions in quality service delivery on one hand and the transparent claim handling processes on the other result in increased number of satisfied clients. Below are the figures which support the above given statement.

#### Reported Claims

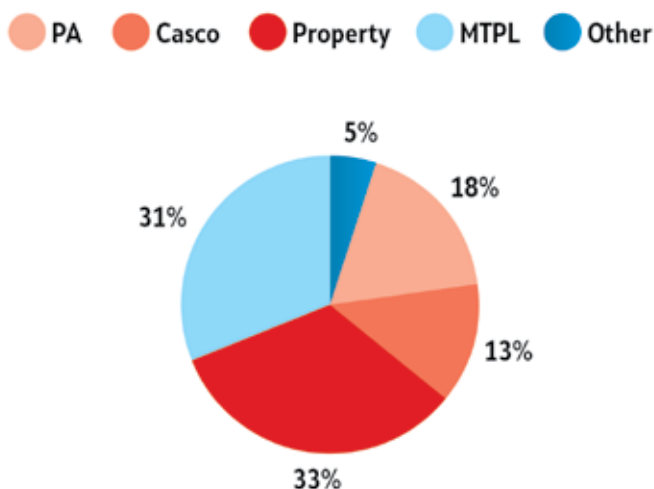
Number of reported claims by classes of business

Accident	Casco	Property	MTPL	Other
1 120	840	2 072	1 930	304

Globally, our position in the insurance market is becoming more and more important and this trend has been reflected in the number of claims reported this year.

The comparison of reported claims in the preceding year to 2017 shows increase in the number of reported claims by 1.1% and most of the reported claims refer to property insurance of 7.0% which is mostly due to losses or damages caused by cold weather conditions during January and February, then MTPL claims of 3.5%, Casco Insurance of 0.2% and increase in other reported claims of 14.7 whereas personal accident claims report decrease of 13.5% due to failure to obtain a large client.

#### REPORTED CLAIMS



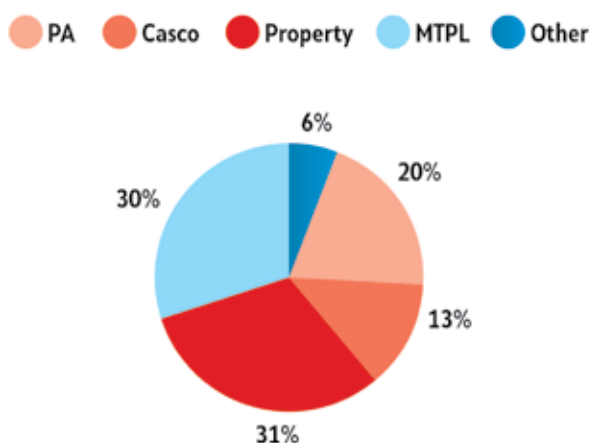
## Settled Claims

Number of Settled Claims

Accident	Casco	Property	MTPL	Other
1 323	863	2 076	2 050	398

The same trend is evidenced for the settled claims in their number of cases which is by 2.3% higher than the last year.

### SETTLED CLAIMS



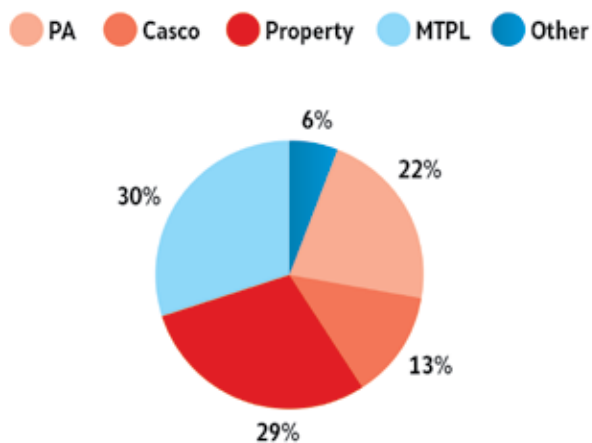
## Paid Claims

Number of paid claims

Accident	Casco	Property	MTPL	Other
1 336	799	1 722	1 828	383

Бројот на исплатени штети во оваа година е исто така зоглемен во однос на минатата година за 8,3 %.

### PAID CLAIMS





For 2017 the number of paid claims is also increased by 8.3% compared with the last year.

For 2017 the largest settled and paid claim in the amount of 5.7 million related to loss caused by plant accident (engineering risk).

For the following year we will continue to develop the professional competence and capacity of the claims staff and enroll young professionals in various fields to ensure that all needs of our clients are successfully met.

#### **9.4 DISPUTED CLAIMS AND RECOVERIES FOR 2017**

The Department for disputed claims and recoveries is responsible for litigations involving claims related disputes of any class of insurance or claims for breach of contract, or disputes concerning collection of recourse receivables, employment related lawsuits or other lawsuits in which the Company may be the party that is being sued (the defendant) or the plaintiff. The Department for disputed claims and recoveries manages the litigations by virtue of the proxies which are delegated authorities by the legal representative. The Department employs internal lawyers and outsources external lawyers. The Department employs 5 people and outsources 12 external lawyers. They represent the Company in the courts and any other legal institutions throughout the country.

The Department also supervises and coordinates the lawsuits brought in the courts in other countries which are run by the corresponding agencies.

The Department also controls and approves any agreement where the Company acts as a contracting party to third parties. The control in fact will ensure that the agreements have been made in compliance with the statutory regulations and applicable legislation in the Republic of Macedonia and in line with the business policy of the Company.

The proxies are obliged to protect the interests of the Company during legal proceedings and avoid any unnecessary exposure of the Company to legal costs and levies and act within legally determined terms and periods of time. They should work in a professional and conscientious manner when representing the interests of the Company before the competent courts and treat colleagues of the opposite party fairly and act lawfully and with honesty in courts and other government institutions in the country. The external lawyers of the Department for disputed claims and recoveries act on behalf of the Company and represent its interests before the competent legal institutions so they should avoid any conflict of interest, any unethical conduct or any behavior which may threaten the reputation of the Company.

The basic code of behavior for proxies includes professionalism, honesty and integrity, team work and quality work improvement and development and professional education.

In the beginning of 2017, the Department had 178 still open court cases in terms of legal actions brought against the Company. During 2017, the total number of 132 litigations including claims related disputes brought against the Company by classes of business refers to the following:

- 89 disputes refer to MTPL;
- 16 disputes refer to uninsured vehicles;
- 16 disputes refer to foreign vehicles under Green Card policy;

- 5 disputes refer to personal accident claims;
- 2 disputes refer to property claims;
- 2 disputes refer to casco claims;
- 2 other dispute (employment and management dispute).

During 2016 no lawsuits involving breach of contracts were brought against the Company. The Department still runs 1 case initiated in the previous years, pending the court decision.

For 2017 the Department for disputed claims and recoveries stated their work with 1,204 pending cases in regard to uncollected recourse receivables (most of them are subject to enforcement action). During 2017 the Department brought 72 lawsuits against recourse debtors.

## 9.5 HUMAN RESOURCES

The activities of HR Department were mostly focused on employees' learning and development.

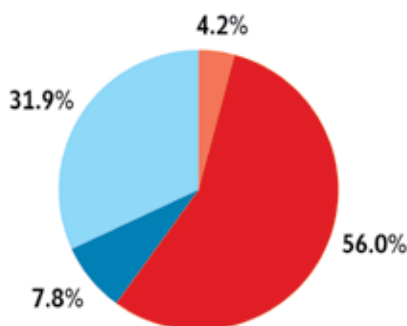
This year employees from our Company attended more that 60 trainings and seminars, by which we continue to fulfill our strategic goal to induce employees' personal development and improve their knowledge and expertise.

The employee turnover in 2017 resulted in further changes in Company workforce structure. The number of employees in the Company by December 31st, 2017 was 166, out of which 48 in sales function and 118 in other Company functions.

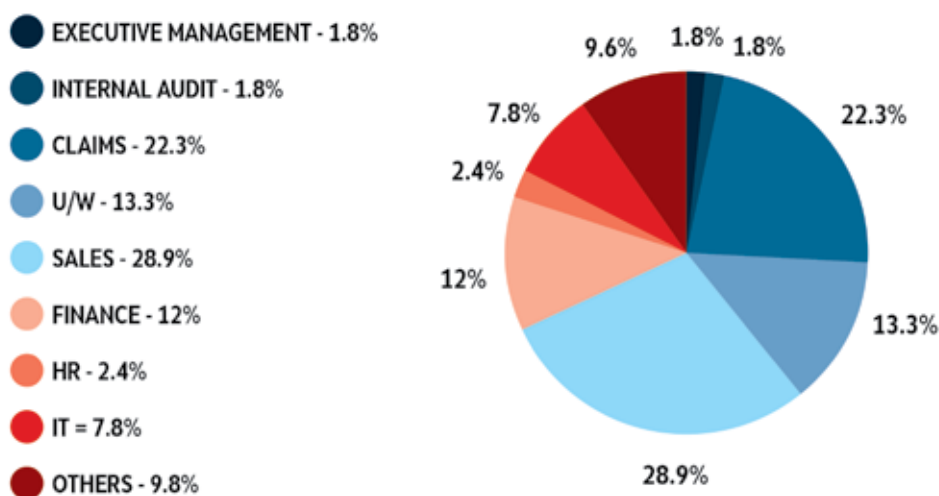
The structure of the employees by educational level and function allocation is as follows:

### EDUCATIONAL LEVEL

● BACHELORS DEGREE ● HIGH SCHOOL ●



## STRUCTURE BY FUNCTIONS



### 9.6 INFORMATION TECHNOLOGY

The main function of the IT Department of Insurance Makedonija a.d. Skopje - Vienna Insurance Group is providing support to the Company business and ensuring effective and efficient operation through:

- provide and participate in the achievement of targets set by the Company business plan and strategy,
- carry out corporate and local processes and procedures, and
- ensure reliable and available information and integrity of data.

The IT Department of Insurance Makedonija a.d. Skopje - Vienna Insurance Group is designed in accordance with the necessities of business processes to ensure prompt and complete data processing and availability of documented information used in their operation.

In 2017 the IT Department was awarded ISO 27001:2013 certificate confirming that the compliance with the international standards for IT information security. IT Department employs 13 professionals with excellent business knowledge, good range of technology competence and computer skills and they constantly improve their knowledge following the latest developments in the field of information and communication technology.

IT function actively operates in many different fields:

- Access to IT services of 100% for 2017;
- Development and maintenance of application software;
- DB administration, development and maintenance of system software, hardware, email and network;
- Application of IT Security Strategy following the standards of the VIG IT Strategy and Security Policy;
- IT management including monitoring of IT projects and resources and functioning of Steering Committee;
- Compliance of the IT activities with the local statutory regulations and requirements;

- IT cost savings by 14.09% or 85.91% of the targeted IT cost savings for 2017;
- Achieve IT capital procurement by 88.61% of the targeted volume for 2017.
- Some of the more important IT projects in 2017 are:
- Development and putting into production of AUDATEX web services;
- Standing order;
- Development of software application for Shareholders General Meeting;
- Assessment and valuation reports;
- Implementation of web services for MTPL and GC;
- Development of software application for related parties;
- Administration of privileged clients;
- Health insurance;
- Development of web application for group accident.

## 10. FINANCIAL RESULTS

For 2017 the Joint Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje – Vienna Insurance Group operated according to the strategic business goals and priority targets defined by the financial plan and the business policy. As of December 31, 2017, the Company achieved and even exceeded the targeted goals in terms of the profit and the profitability in general.

In the reporting year the Company demonstrates positive financial result reaching the amount of MKD 107.1 million.

Summary income statement and detailed description of the income items and expenses recognized in the income statement which incurred during the reporting period are given below.

Earned premium income for non-life insurance is MKD 530.1 million which is by 11.8% less than the outcome reported for 2016. The total written premium for non-life insurance is MKD 853.7 million which is by 8.8% less than the result reported in 2016. It was corrected by the amount of unearned premium for 2016 reported as the income item and the amount of unearned premium for 2017 reported as liability. Additionally the gross premium income is decreased for the earned premium placed in reinsurance.

The earned premium, investment income and other income amount to total value of income of the Joint Stock Company at MKD 820.2 million. Total income achieved by the Company in 2017 shows a decrease of 7.6% in comparison with 2016. Total expenses show decrease by 3.4% or in figure at MKD 25.4 million. Claims expenses of MKD 197.4 million and the underwriting expenses of MKD 390.4 million account for almost 82% of the total expenses. The investment expenses of MKD 24.2 million and other operating costs compose the total operating expenses at the amount of MKD 710.5 million.

The determined income and expenses as stated above show that the Company report positive financial result of MKD 107.1 million.

2017 income tax calculated on the achieved profit increased for the amount of non-deductible expenses and understated revenues for 2016 and additionally decreased for tax deduction, amounts to MKD 11.4 million.

MANAGEMENT BOARD

**Mr. Bosko Andov**  
President of the Management Board

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**Ms. Vesna Gjorceva**  
Member of the Management Board

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**Mr. Risto Sekulovski**  
Member of the Management Board

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ОСИГУРУВАЊЕ  
МАКЕДОНИЈА



VIENNA INSURANCE GROUP

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*Тука сме*

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МАКЕДОНИЈА**



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