

Акционерско друштво  
за осигурување и реосигурување  
МАКЕДОНИЈА Скопје - Виена Иншуренс Група

ОСИГУРУВАЊЕ  
МАКЕДОНИЈА  
VIENNA INSURANCE GROUP

Бр. 02-214312-1  
06-03 20 19 год.  
СКОПЈЕ

**STOCK COMPANY FOR INSURANCE AND  
REINSURANCE MAKEDONIJA – VIENNA INSURANCE GROUP**

**ОСИГУРУВАЊЕ  
МАКЕДОНИЈА**   
**VIENNA INSURANCE GROUP**

**ANNUAL REPORT**

**2019**

**Skopje, 2020**

## **1. Management Board President's Report**

Insurance Makedonija s.c. Skopje - Vienna Insurance Group produced positive financial result in 2019 as well and achieved profit before tax of MKD 96.7 million and profit after tax of MKD 85 million in the economic environment where the GNP reached the total growth of about 3.6 %.

The key financial factors remained as good as previous years.

For 2019 the gross written premium of non-life businesses increases by 2% or MKD 17 million, comparing with 2018 of which MKD 11 million was written in property insurance. Regarding other classes of business, we state increase in MTPL by 3 %, increase in accident insurance by 4%, whereas we state decrease in terms of Casco motor insurance by 5 % and goods in transit by 2%. For two other more significant classes of business, the gross written premium in travel insurance retained the scope of the last year achievement, whereas the general liability insurance reported 4 % decrease.

We record decrease in incurred claims of 8% or in absolute figure it is MKD 17 million.

The operating cost in aggregate value increased by 5% or for total amount of MKD 21 million. There is an increasing movement with the commissioning paid to insurance representatives and insurance intermediaries by 18% or for the amount of 25 million.

For the Company insurance portfolio, the property businesses take the largest share of 43.3%, and then follows the motor vehicle insurance (MTPL) of 30.3%, the accident insurance of 9.9% and Casco motor insurance of 7.2 %. All other classes of business take the share below 10% respectively.

The combined ratio for 2019 is positive reaching 92% (94% in 2018 and 90% in 2017). 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 2019 the Company received 377 complaints in terms of claims indemnities which record a decrease by 7 % if compared to last year, which is a very good result showing that the Company has in place excellent claims management processes. All complaints, with no exceptions, were handled within statutory stipulated terms.

Net investment income from rental property is stable and shows good results as those achieved in 2018. All rental agreements have been renewed. Regarding the capital investments, in 2019 we have invested the largest amount in the renovation of the facade of the main building of the Company in Skopje, which was the third phase of the facade reconstruction project.

Net investment income earned from government bonds and bank deposits demonstrates increase by 8 % or for amount of MKD 2 million consequential to the investment strategy which focused on long-term financial instruments pursuant to current monetary policy. The average deposit interest rate for corporations decreased by 0.16 percentage points if compared to December 2018 as stated by the government of the Republic of North Macedonia.

During the preparation and review of our annual accounts and financial statements the data on the Macedonian insurance market key figures movement have not been officially published yet, although a significant increase in gross written premium is reported in terms of non-life insurance lines which may reach about 9.4 %, whereas the total increase of gross written premium in the market may be about 10.4 % and the increase in premium for life insurance lines is almost 15.5 %. This year as well, most insurance companies are expected to record profit after tax which shall lead to increase of the total revenue of the insurance industry in the market.

Following the 2020 Business Plan, we forecast increase in gross written premium by 2 % in comparison to obtained result for 2019, whereas we estimate the profit after tax slightly to exceed the last year level.

We shall keep repeating that 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 any significant movements in terms of premium collection capacity; nonetheless, we forecast the increase in collection of outstanding premium and settlement of old court cases, which will further improve our liquidity.

The interest rates on deposits and other securities (government bonds) are expected to go slightly below the level reached in 2019.

In 2020 we will continue with the disposals of property which is not used for the purpose of the business of the Company or property partly used for that purpose. Moreover, during the same year the Company will complete the fourth phase of the main building façade reconstruction project and the last fifth phase shall commence. During 2019 the Insurance Supervision Agency enacted the Rulebook on form and content of and requirements for financial statements and annual reports. This Rulebook affects the accounting of positions of land, buildings and other material assets used for business purposes and those which are not and it is calculated when replacement cost is decreased by the value of accumulated depreciation and accrued depreciation. Application of the regulations of the Rulebook results in the decrease of the accounting value of the assets and of the revaluation reserve and it is presented in the financial statements.

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.

We do wish and believe that we will have prosperous and successful 2020 year and therefore we invite all our staff and business partners by taking professional approach to achieve the set targets.

## **2. General Economic Environment**

Real gross domestic product (GDP) including the third quarter of 2019 amounted to 3.6 %. The economic growth in Q3 2019 is slightly higher in real terms than the projected growth for this period, following cycle projections for October 2019. Analysed by activities, especially in terms of manufacturing, economic growth in Q3 2019 was mostly a result of the positive performance of the increased activities in industrial sector (energy industry), construction sector and favourable trends in trade, transportation, accommodation and food services ("Trade, Transportation, Tourism").

Inflation rate, according to the consumer price (CPI) index for the period from January to September 2019 amounted to 0.6 % and in November 2019 amounted to 0.1 %. Consumer prices slightly decreased by 0.1 % on monthly basis in November 2019 (the same as in October 2019) mostly in relation to common categories and a minor decrease in price was observed at the category of energy. On the other hand, prices in food experienced slight increase. Average inflation rate in the period January – November 2019 amounted to 0.8 % which is by 1 % lower than the projected inflation rate for 2019. Unstable world commodity prices create instability and still remain the main factor of the projected inflation rate for the next period.

The unemployment rate retained continuity of favourable trends in Q3 2019 decreasing to 17.1% (compared to 17.5 % in Q2), whereas the number of newly employed has increased by 5.3 % on annual base. The long-term employment policy targeting young and unemployed population is seen as a labour market improving condition.

Total government debt at the end of Q3 2019 accounted for 48.6 % of GDP, increasing by 0.9 p.p. compared to Q2 2019.

The banking system remains healthy, but risks need to be closely monitored in order to be mitigated. Banks are well capitalised and profitable and liquid. Capital adequacy ratio at the end of June 2019 was 17.4 % increasing by 1.0 p.p. compared to last year. Non-performing loans are managed successfully and retained on a relatively low level which is 5.4 % to total credit portfolio and the decrease is mainly subject to write-offs of non-performing loans. The excessive growth of loans with FX clause and FX-linked loans to households (about 50 %) make the situation vulnerable. Therefore, the National Bank calls for a more granular approach to household loans in order to ensure improved risk monitoring system. The annual growth rate of the total deposits in October 2019 amounts to 10.4 % which exceeds the annual growth forecast for Q4 2019 (9.6 %). Within sectors, the excessive deposit growth is identified with households. Analysed by the currency structure, the upward changes largely result from denar

deposits (including demand deposits). The annual growth rate of the total loans in October 2019 amounts to 6.0 % which exceeds the annual credit growth forecast of 5.4 % for Q4 2019, following the October forecast. Within sectors, total loans increase is a result mostly of the increased lending to household sector with a positive contribution of the corporate sector. Analysed by the currency structure, the upward changes largely result from denar loans amid a positive contribution of foreign currency loans.

Following the recommendations for EU integration process, both, the National Bank of the Republic of Macedonia (NBRM) and the Ministry of Finance continue to make joint efforts towards further strengthening of the financial stability of the country. For this purpose, two strategies have been created, one is the "Denarisation Strategy" and the other is "Strategy for encouraging the dealing with and improvement of the management of non-performing loans", both subject to process of inter-institutional review. Both strategies encompass several different measures and actions the implementation of which will require involvement of other competent institutions.

Establishing and maintaining the sustainable pension system is an important medium-term goal. In the beginning of 2019, pension system reforms were adopted (higher contribution taxes) whereby savings of 0.6 % of the GDP are forecast up to 2022 resulting in decrease of the pension deficit on a medium-term basis.

### **Macedonian Insurance Market**

The insurance industry in the Republic of North Macedonia recorded a very positive development trend as evidenced by the growth of gross written premium (GWP) amounted at 6.0 % for non-life insurance lines and an increase of 9.0 % in the number of policies issued through various channels of distribution.

The number of insurers operating on the Macedonian market remains unchanged in 2019, as all 16 insurance companies do, of which 11 are registered as non-life insurers whereas 2 insurance undertakings have changed the owners, 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 39 in 2019. There are 11 insurance representatives and 6 banks which function as distribution channels operating on the Macedonian market.

In 2019 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 (52.3 %), followed by Property insurance (20.2 %) and Casco insurance (9.6 %). It is worth mentioning that the motor vehicle insurance still takes almost 62% of the total gross written premium for non-life businesses for 2019.

The Health insurance has shown the largest growth of gross written premium for non-life classes of business which is 50 %.

For 2019, no significant reforms in the regulations governing the insurance industry were introduced that might have affected the insurance market in our Country.

### **3. Company Profile**

#### **3.1 Legal Status, Headquarters and Registration of the Company**

**Company name:** Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje - Vienna Insurance Group

**Short name:** Osiguruvanje Makedonija a.d. Skopje - Vienna Insurance Group

**Registered seat:** 11 Oktomvri Street 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.

#### **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) 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
- 19)

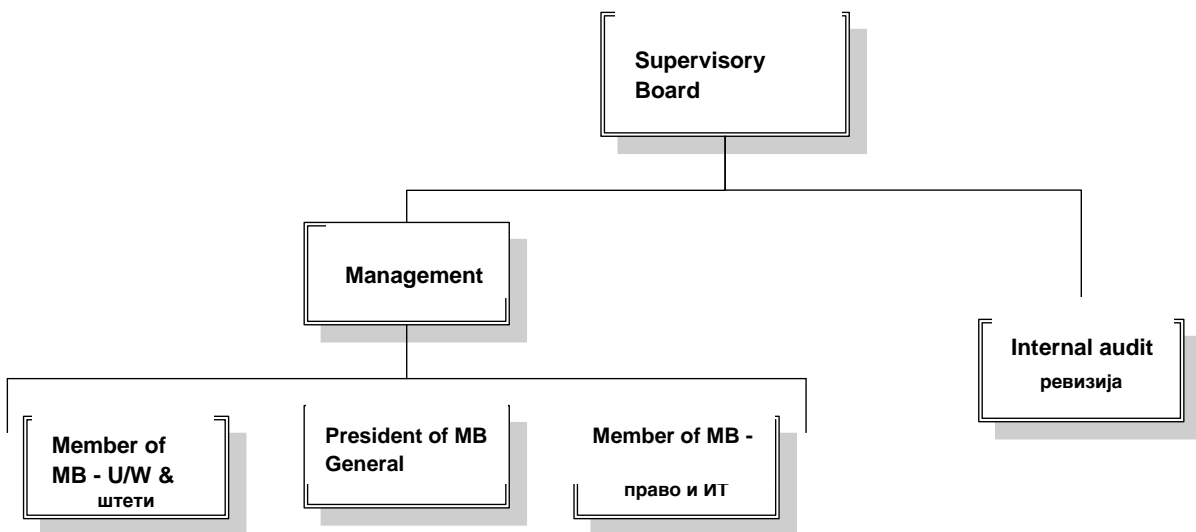
#### List of insurance agreements for 2019

List of insurance agreements	Class
<b>Group personal accident insurance</b>	01
<b>Personal accident insurance</b>	01
<b>Managers accident insurance</b>	01
<b>Sports accident insurance</b>	01
<b>Compulsory personal accident insurance of passengers in the public transport</b>	01
<b>Drivers and passengers and workers accident insurance during operating and driving motor and other vehicles</b>	01
<b>Voluntary personal accident insurance of passengers in the public transport</b>	01
<b>Personal accident insurance for guests in hotels, motels, camps, bungalows, resorts</b>	01
<b>Personal accident insurance for spectators of cultural and sports and other events</b>	01
<b>Personal accident insurance for pupils and students</b>	01
<b>Voluntary group health insurance in the event of critical illness</b>	02
<b>Voluntary group health insurance in the event of surgical interventions/operative procedures</b>	02
<b>Motor vehicle insurance (Casco)</b>	01,03
<b>Passenger motor vehicle insurance (Casco)</b>	01,03
<b>Carrier third party liability insurance international and inland road transport</b>	10
<b>Carrier third party liability insurance international and inland road transport by transport organizer</b>	10
<b>Domestic cargo</b>	07
<b>Cargo under general policy</b>	07
<b>Goods in international transport</b>	07
<b>Money and other valuables in domestic transport insurance</b>	07
<b>Fire and allied perils</b>	08,09
<b>Machinery breakdown and allied perils</b>	09
<b>Robbery and burglary insurance</b>	08, 09
<b>Glass breakage insurance</b>	08, 09
<b>Household insurance</b>	08, 09, 13

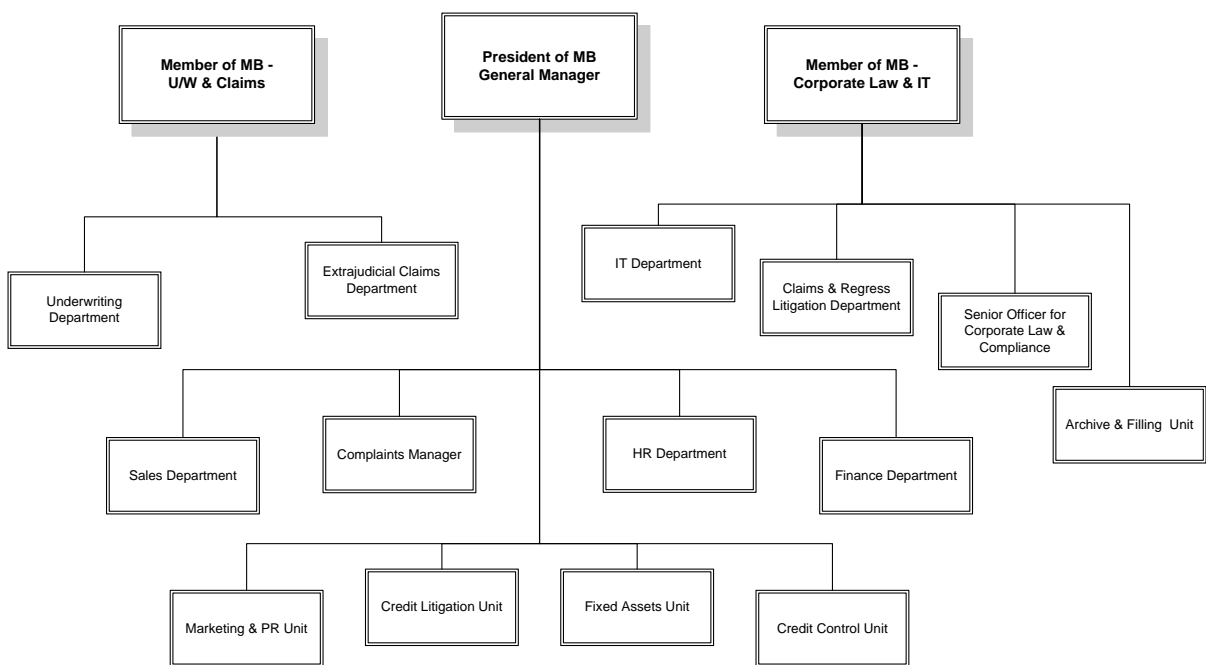
<b>Construction all risks insurance</b>	08, 09, 13
<b>Erection all risks insurance</b>	08, 09, 13
<b>Low voltage electronic equipment, computers, processors and other devices</b>	08, 09
<b>Property insurance – master policy</b>	08, 09, 16
<b>Property insurance for electric power company</b>	08, 09
<b>Combined household insurance – family package</b>	01, 03, 08, 09
<b>Combined insurance for shops and service providers</b>	07, 08, 09, 13
<b>Commercial combined business insurance</b>	07, 08, 09, 13, 16
<b>Motor third party liability insurance</b>	01, 03, 10
<b>Ship and motor boat owners third party liability insurance</b>	12
<b>General liability</b>	13
<b>Notary public liability</b>	13
<b>Trustee Liability Insurance</b>	13
<b>Medical malpractice insurance</b>	13
<b>TIR Carnet insurance</b>	15
<b>Fraudulent foreign currency risk insurance</b>	16
<b>Business interruption due to fire and allied perils</b>	16
<b>Travel insurance and additional accident and sports accident insurance</b>	18



### 3.3. Company organisation



#### Stock Company for Insurance & Reinsurance MAKEDONIJA Skopje - Vienna Insurance Group



### 3.4 Share Capital and Shareholders

<b>Company:</b>	Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje - Vienna Insurance Group			
<b>CRN:</b>	4067037			
<b>VAT No:</b>	4030974258740			
<b>Number of shares</b>	717462			
<b>Nominal value</b>	20,08 Euro			
<b>Nominal capital</b>	14 409 506,81 Euro			
<b>Type of shares</b>	Ordinary shares			
<b>Quotation of shares:</b>	Compulsory quotation / Macedonian Stock Exchange AD Skopje			
<b>OWNERSHIP STRUCTURE</b>				
<b>Shareholders</b>		<b>Number of shares</b>	<b>Number of shareholders</b>	<b>Percentage</b>
<b>Domestic</b>	<b>Legal entity</b>	16 660	48	2.32%
	<b>Person</b>	22 965	378	3.20%
<b>Foreign</b>	<b>Legal entity</b>	676 410	4	94.28%
	<b>Person</b>	1 427	19	0.20%
<b>Total</b>		717 462	449	100.0%
<b>MAJOR SHAREHOLDER</b>				
<b>Name of shareholder</b>		VIENNA INSURANCE GROUP AG WIENER VERSICHERUNG GRUPPE		
<b>Registered seat</b>		Vienna, Republic of Austria		
<b>Address</b>		Schottenring 30, 1010 Wien, Republic of Austria		
<b>CRN</b>		FN 75687 f		
<b>Number of shares</b>		676270		
<b>Total nominal shares</b>		13 582 206.68 Euro		
<b>% shareholder equity</b>		94.26%		
<b>SECOND SHAREHOLDER</b>				
<b>Name of shareholder</b>		MAKEDONSKI TELEKOM AD SKOPJE		
<b>Registered seat</b>		Skopje, R Macedonia		
<b>Address</b>		Kej „13 Noemvri “ no. 6		
<b>CRN</b>		5168660		
<b>VAT No:</b>		4030997339640		
<b>Number of shares</b>		2 994		
<b>Total nominal shares</b>		60 131.5 Euro		
<b>% shareholder equity</b>		0.42%		
<b>THIRD SHAREHOLDER</b>				
<b>Name of shareholder</b>		TIM INZINERING DOOEL Skopje		
<b>Registered seat</b>		Skopje, R Macedonia		
<b>Address</b>		Mile Pop Jordanov Street 72/45		
<b>CRN</b>		4638948		
<b>VAT No:</b>		4030993159515		
<b>Number of shares</b>		2 800		
<b>Total nominal shares</b>		56 235.2 Euro		
<b>% shareholder equity</b>		0.39%		

# PART OF VIENNA INSURANCE GROUP

## 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 brands 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 the 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.

### 3.7 Organisation Structure

The Company operates through its units including the Head Office and 15 branches across the whole territory of the Republic of Macedonia.

Branches	Address
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. Tabanovce	Crossing border Tabanovce

The offices have different 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 regulating body. 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 organisation 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 organisational units and risk management processes.

The risk management organisational units encompass 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 organisational 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

During 2019 the Company carried out three processes based on the risk management system of the Group, such are internal control system, risk inventory and own risk and solvency assessment.

**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.

**The Own Risk and Solvency Assessment** is an internal process based on the results achieved in the course of the overall risk management process. Following the aforementioned, this process is performed relying on the risk inventory, internal control system, all risk management related continuous processes of the Company, business plan, strategic policies and all relevant solvency calculations, current as well as foreseen.

Qualitatively evaluated risks are assessed by expert judgement or by determining frequency and severity according to a given classification.

Based on the risk evaluation process the internal control system has identified 283 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.

#### **1. Market risk**

- 1.1. Interest rate risk
- 1.2. Equity risk (risk involved in the changing prices of stock investments)
- 1.3. Property risk
- 1.4. Spread risk
- 1.5. Concentration risk
- 1.6. Currency risk

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

- 2.1. Non-life premium and reserve risk
- 2.2. Non-life lapse risk
- 2.3. Non-life catastrophe risk
- 2.4. Non-life concentration risk

#### **3. Health underwriting risk**

- 3.1. Health premium and reserve risk
- 3.2. Health lapse risk
- 3.3. Health catastrophe risk

#### **4. Intangible asset risk**

#### **5. Counterparty default risk**

5.1. **Type 1-** Counterparty default risk reflects possible losses due to unexpected default of the counterparty not covered against spread risk

5.1.1. Reinsurer default risk

5.1.2. Financial institutions default risk

5.1.3. Third Party default risk

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

## **6. Liquidity risk**

## **7. Operational risk**

7.1. Business disruption risk

7.2. Know-how concentration risk

7.3. Insufficient human resources

7.4. Hardware and infrastructure risk

7.5. IT software and security risk

7.6. Model and data quality risk

7.7. IT development risk

7.8. Project risk

7.9. Insurance related legal and compliance risk

7.10. Other legal and compliance risk

7.11. Process and organisation risk

7.12. Human error

## **8. Strategic risk**

## **9. 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 considerate 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 of 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 applies 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 analysed. 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 analyses the present terms and conditions for insurance and introduces amendments and supplements thereto and prepares new products to launch in the market.

The Company continuously reviews current terms and conditions and the insurance tariffs and introduces amendments and alternations thereof, and designs new products.

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 purpose 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 reserves, accompanied by the authorised actuary's opinion and the current analysis of the applied assumptions and testing the adequacy of the reserves.

### **Counterparty default risk**

This risk is defined as potential loss or unfavourable change 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 number 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 investment 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 a 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 31.12.2019 the liquidity ratio is 14.64. For 2019 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 unfavourable 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 of 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 unauthorised 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 fulfils 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 performances. 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 2019, 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, 65 compliance risks were identified.

The following legal areas were subject to special consideration and inspection:

- anti-money laundry and financing terrorism,
- anti-trust,
- securities,
- data protection and privacy,
- economic sanctions and embargoes,
- financial crimes,
- insurance,
- labour relations and social protection rights,
- consumer protection,
- taxes.

The result from the risk inventory related to the compliance risk carried out in 2019 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 optimisation 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 optimised 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, transparency, offer products where 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 classes 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 is defined in line with the article 77 of the Law on Insurance Supervision.

MKD 1K	2019	2018
<b>Solvency margin</b>	114.643	105.331
<b>Guarantee capital</b>	276.685	276.722

## 5. Corporate Governance

The corporate governance assumes the continuous compliance of the operating activities of the Company with statutory regulations and legal requirements in Republic of North Macedonia. 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 four (4) 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 managing 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. Through the electronic system of the Macedonian Stock Exchange SC Skopje which assists the listed companies, the Company provides all relevant information about its operation and many useful information can also 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 31.12.2019, the members of the Supervisory Board of the Company are:

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

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

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

**Mr. Phillip Bardas**, member of the Supervisory Board.

During 2019 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 analysing relevant reports, approving special rulebooks submitted and activities performed 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 2019 are recorded in apposite reports. The adopted decisions have been properly implemented during the operation of 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 organisational 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 elected president. As of 31.12.2019, 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 2019 the Management Board has been following the insurance industry market movements and thoroughly reviewing the operating reports of other insurance companies presented by the insurance regulatory authority and the National Insurance Bureau. The Management Board constantly monitors the liquidity and solvency margin of the Company, the volume of reserves determent 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 that the EU Directives related to insurance market regulations are followed.

During 2019 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 organisational 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 01.01.2019 to 31.12.2019, the Management Board of the Company held 42 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. The activities of the Board contributed to the Company operating successfully and profitably in 2019.

### **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 2019, according to the audit annual plan, the Internal Audit of the Company carried out 7 audits covering all key operational functions of the Company.

The Internal Audit reported 2 findings, one ranged as middle risk and one ranged as low risk. Few minor discrepancies were also noted but they were, either addressed and corrected during audit fieldwork or shortly after the completion.

The audit opinions were "Sound" and "Satisfactory" (for one function only), implying that underlying control environment was assessed to be effective in all material High and medium risk areas, with few issues requiring remedial actions.

For all reported issues, appropriate activities, owners and deadlines were agreed and those that were due were completed following scheduled timeframe and mode.

## **6.2 External Audit**

The external audit for 2019 is the audit company PricewaterhouseCoopers (PwC) Skopje, with CRN: 6333370, VAT: 4030008022586 and registered seat at the 8<sup>th</sup> September Boulevard, DC Hiperium 16, 1000 Skopje.

This Audit Company has been appointed by the Company Assembly of Shareholders under the Decision 02-3562/7 issued at their regular meeting held on 23/04/2019.

In accordance with the Law on Insurance Supervision the Insurance Supervision Agency has issued an official Decision **no. 19-2-526 as of 27.05.2019** approving that the Audit Company PRICEWATERHOUSECOOPERS REVIZIJA DOO Skopje may review and audit the financial statements of the Company for 2019.

## **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 recognised actuarial standards.

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

For 2019 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.

**Gordana Minoska**

**Jasminka Ilieva**



## **8. Business Policy and Objectives**

### **8.1 Objectives**

Main objectives of the Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje – Vienna Insurance Group (hereinafter The Company) 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, stock exchange and capital markets;
- 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 keeping 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 utilisation of insurance funds, improvement of working processes and procedures,

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 ensure 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 (operating instruments) which govern the insurance industry.

## **9. Operating Performance**

### **9.1 Underwriting**

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

In its operation the Underwriting function assume risks and applies measures and activities to ensure stable and profitable portfolios and achievement of positive underwriting results in general.

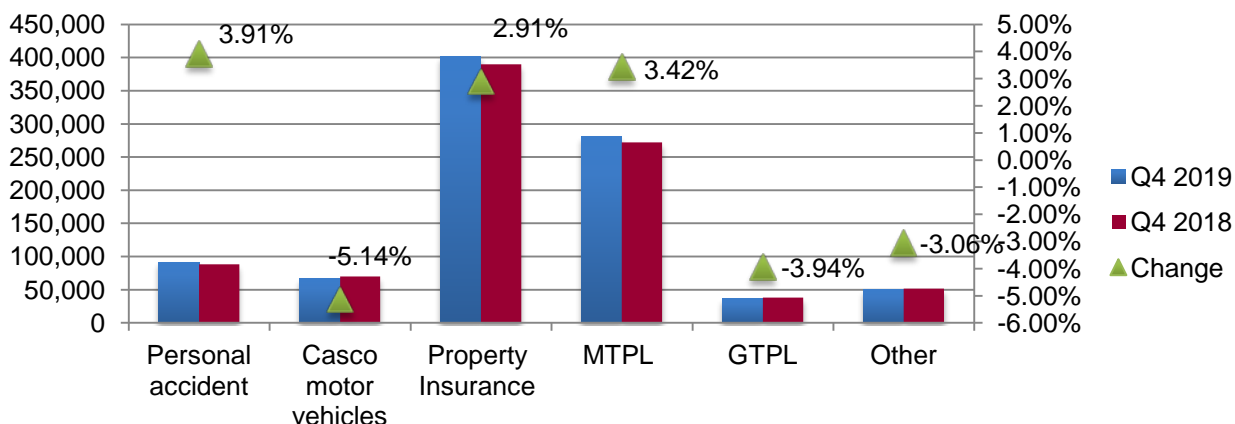
For 2019 we kept the trend of keeping positive technical result for property insurance and providing high quality protection to the property of our clients. The achieved positive underwriting result for property businesses is by 2.5 % better than the result achieved last year, which allowed us to keep our leading role on the market for these classes of business. The analysis of the reported results achieved in motor vehicle insurances show the retention of the same underwriting result which allows us to continue our strategy of conservative 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 2019, 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. The significant portion of their activities the underwriters devote to create and develop new products and offer products tailor-made to satisfy needs of specific clients and perform comprehensive risk survey for major clients. Furthermore, underwriters monitor and analyse the technical results by different clients, by different risks and by the portfolio in total.

For 2019, 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 2019 the SSC managed to process more than 76,000 cases and most of these cases referred to motor vehicle policies and policies issued to persons. On the other hand, a number of complex insurance policies have been created and issued in relation to property insurance and liability and transport insurances. The tariff control as the final stage of policy creation process is another responsibility of the SSC which actually finalises the whole underwriting process.

The underwriting department is very well organised 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.

### Written Premium by Classes of Business 2019/2018



### 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 2019 the East Region reported written premium of MKD 261.2 million and compared with the result reported for 2018 it shows a decrease as a result of an internal transfer of premium balances from one to another region. The most important increase in MTPL premium for the amount of MKD 3 million was mostly attributable to activities and measures we took to improve the sales force compensation system.

The MTPL result that the East Sales Region achieved for 2019 took 35% of the total written premium.

We completed several already planned high priority activities which related to enlarging the sales network by recruiting new insurance representatives and sales agents, and by opening new working facilities.

A new branch office we opened in Negotivo was an activity which met our expectations and in several cities of the Eastern Region and in Skopje new sales representative were recruited.

Our regular communication with major clients, quality service delivery and the loyalty of our clients for many years helped us significantly retain them and renew the insurance agreements with those clients.

The premium collection was carried out as expected and new activities in terms of establishing more regular communication with the sales agents through an appointed liaison officer resulted in a decrease of an outstanding premium volume.

The organisational structure went through a change in terms of a management as a new Team Managers were promoted replacing the employees who already retired. The newly engaged team managers received proper trainings on business plan and goals of the Region and those of the Company in general.

The projected 2020 sales target is an increase of 8.6 % to 2019 achievement which amounts to MKD 284 million. The main focus will be sale and distribution of new health insurance policies and increase in sold MTPL policies.

Finding new channels of distribution and new ways of selling products will be activities that we will continue to perceive in the next year.

### **The West Sales Region**

The Annual Report presents the activities and results achieved in 2019.

From the beginning of 2019 the Western Region intensely focused on the achievement of clearly budgeted goals and objectives of which the most important were:

- Restatement of insurance contracts;
- Premium collection;
- Develop and increase sales network;
- Quality service delivery;
- Active participation in the market and satisfaction of client's needs.

The West Region completed the 2019 obtaining gross written premium of MKD 236.2 million.

During 2019 we managed to achieve results that make our performance moderately successful as we could not reach budgeted business targets, however the obtained results were better if compared to 2018 results.

It is the compulsory motor insurance that still keeps the leading position among other classes of business in the portfolio structure of 32.5 %.

In 2019, 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. We want to be partners to our clients and offer them innovative solutions through our sales network.

Development strategy will focus on capacity building key sales skills, leadership and talent and excellent performance encouragements.

The premium collection in 2019 retained the level of 2018.

In 2019 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 educational and mentoring processes for the external insurance representatives under direct supervision of the internal coordinators;
- Open new points of sales in line with the market needs and Company strategy.

2020 strategic goals of the West Sales Region are:

- achieve budgeted goals and targets;
- enlarge product portfolio;
- increase sales network;

We believe that properly set targets for 2020 business strategy will generate success.

### **Non-Agent Sales**

For 2019 Non-Agent Sales obtained gross written premium of MKD xxxxx million which is an xxxx % increase compared to 2018 covering 26 % of the Company portfolio.

This high percentage of participation in the total product portfolio of the Company is attributable to writing insurance businesses through insurance brokerage companies and Komercijalna Bank and to already signed insurance contracts by other insurance representatives which we are managing now.

Insurance business is written through several distribution channels:

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

The successful business cooperation with brokers and brokerage companies sustained its intensity even in 2019. 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 the Company.

The sales of insurance policies through brokerage companies intensified which resulted in the increased sales of policies in terms of MTPL insurance, green card and border insurances. We also reported increase in the sales of property policies, general liability and personal accident insurance policies mostly due to intensified cooperation with several brokerage companies.

The total premium invoiced by brokerage companies for 2019 reached MKD 220 million which is an increase by 15 % in comparison to 2018 result, out of which MKD 73.5 million is the premium invoiced under MTPL policies, Green Card policies and Border policies.

The sales of MTPL, Green Card and Border policies show increase by almost 8 % or about MKD 5.4 million in comparison to the previous year.

Apart from MTPL, Green Card and Border insurances, other classes of business also show increase in sale of about 18.5 % or MKD 23 million in comparison to 2018 and mostly Transport insurance of 45 %, Property Industry of 29 % and Property Civil Engineering of 27 % and Casualty of 25 %.

Home loan insurance policies and Casco insurance policies are sold by the banks intervened by the Promoter. Our Company entered into agreements with two banks and one brokerage company for underwriting these businesses, which are:

- Komercijalna Bank
- Procredit Bank (since 2017 through brokerage company IN-Broker)
- Ohridska Bank

During 2019, Komercijalna Banka A.D. Skopje made a decision to act as an insurance representative. Based on our strategic and long-term partnership with this bank, and complying with the legal regulations by which the bank is restricted to act as an insurance representative and sell different policies from different insurance companies for different classes of business, the Bank decided to write property business offered by our Company whereas MTPL policies from other insurance company.

Businesses written by Procredit Bank (through the brokerage company IN-Broker) decreased by 14 % or MKD 3.5 million in 2018 to MKD 3 million in 2019.

Thanks to increased number of insurance contracts signed through Komercijalna Banka acting as an insurance representative, the invoiced premium volume written through banks in 2019

increased by 240 % especially for the last two quarters. As of December 31, 2019, the invoiced premium amounted for MKD 16.3 million.

The established cooperation between Travel Insurance Promoter and travel agencies continued to function in 2019, and the Promoter was also responsible for selling travel insurance policies through brokers. For 2019 the sale of travel insurance policies show decrease by 18% and amounted to MKD 3 million.

### **9.3 Out-of-Court Claims Settlement**

Our claim handling management relies on the following values:

- Team of highly skilled professionals in terms of claims management;
- Efficient and fair claim service delivery accompanied by prompt payment;
- The most prominent and leading insurer providing direct claims control;
- All claims are handled in close cooperation with the underwriting teams by utilising the database provided by the IT department;
- Strict control over the appointment of service providers and their operation;
- Regular and conservative, yet, realistic claims reserves philosophy.

The Claims Department of the Company employs 30 claims handling professionals and is the largest of this kind. The department has full capacity and competence to meet the needs of clients and brokers:

- Beyond 6,000 new claims are handled annually;
- Over MKD 300 million claim indemnities paid every year;
- Strategic dislocation of claim handling offices: 9 locations across the Country. Field workforce for claims inspection ensuring complete coverage of the Country and providing local expertise and claims handling services;
- Technical solutions that ensure comprehensive and flexible high value information management;
- Professional and strict suppliers' panel and network management;
- 

The claims team enjoys the reputation of being highly professional within its scope of activities and is well known in terms of its technical skills and capacity regarding different classes of insurance, including accident, property and motor vehicles. The claim team of Osiguruvanje Makedonija – VIG possesses unusually rich set of professional qualifications within the relevant business domains such are:

- Legal
- Economy
- Insurance
- Medicine
- Engineering (civil works) and
- Machinery.

The claims team as a professional source is strategically engaged to ensure that Osiguruvanje Makedonia is the best provider of technical best practises.

Osiguruvanje Makedonija - VIG often contributes to analysis and researches on claims in relation to technical matters and plays an active role as an adviser among insurance participants and related government institutions.

These technical advantage and power combine with the pragmatic claims handling philosophy. This confirms that the proactive and flexible approach to claims handling processes where alternative claims settlement mechanisms could be applied, if possible, may lead to better claim settlement solutions.

This pool of skills and knowledge is a source that clients may use and rely upon in their making decisions regarding risk and claims management requirements.

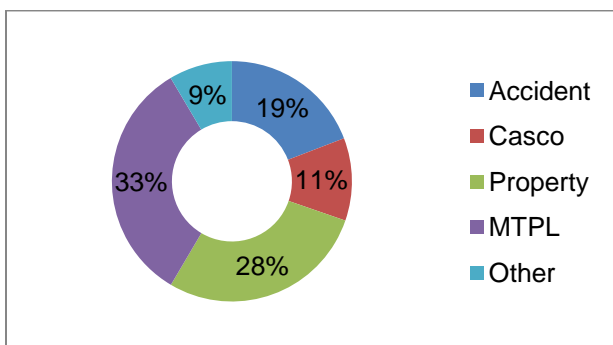
### Underwriting Results

The 2019 net underwriting result is 33.64 % which is a slight increase of 4.24 % compared to 2018 result of 37.88 %.

### Reported Claims

Number of reported claims by classes of business

Accident	Casco	Property	MTPL	Other
1008	586	1482	1736	448



Globally, our position in the insurance market is slightly moving downwards and this trend has been reflected in the number of claims reported this year. The comparison of reported claims in the preceding year to 2019 shows decrease in the number of reported claims by 12 % and most of the decreased reported claims refer to property claims of 23 % and Casco motor insurance of 21 %, then MTPL claims of 2 %, whereas an increase in reported claims refer to accident claims of 1 %, and all other claims report increase of 4 %.

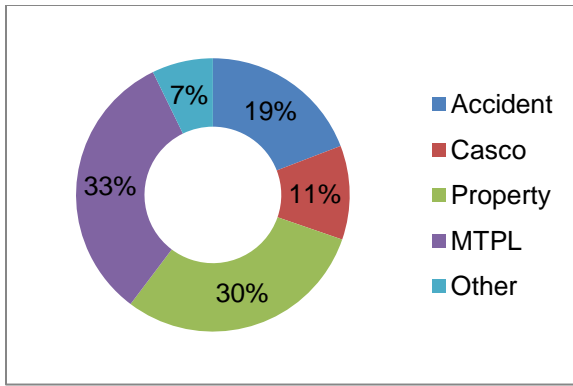
### Settled Claims

Number of Settled Claims

Accident	Casco	Property	MTPL	Other
1125	652	1760	1906	424

The same trend is evidenced for the settled claims in their number of cases which is by 5 % lower than the last year.



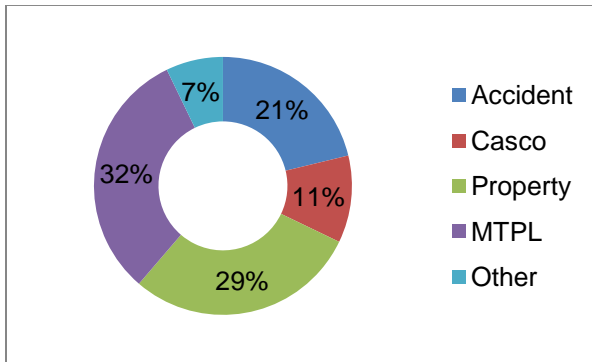


## Paid Claims

### Number of paid claims

Accident	Casco	Property	MTPL	Other
1134	584	1558	1686	383

For 2019 the number of paid claims is also decreased by 4 % compared with the last year.



For 2019 the largest settled and paid claim in the amount of MKD 12,200,000 relates to loss caused by material fault.

For the following year we will continue to develop the professional competence and capacity of the claims staff and enrol young professionals in various fields to ensure that all needs of our clients are successfully met. We will also continue to develop the already established digitalisation processes for electronic claims submission online through a computer or a mobile phone on our website. We will also introduce a computer-based tools to support the early detection and subsequent investigation of potentially fraudulent claims.

### 9.4 Disputed Claims and Recoveries for 2019

The Department for disputed claims and recoveries is responsible for litigations involving claims related disputes of any classes 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 behaviour which may threaten the reputation of the Company.

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

During 2019, the total number of 113 litigations claims related by classes of business refers to the following:

- 83 disputes refer to MTPL;
- 9 disputes refer to uninsured vehicles;
- 4 disputes refer to foreign vehicles under Green Card policy;
- 8 disputes refer to personal accident claims;
- 2 disputes refer to property claims;
- 4 dispute refers to casco claims;
- 1 dispute refers to travel insurance,
- 1 criminal
- 2 lyability

During 2019 no lawsuits involving breach of contacts were brought against the Company. The Department still runs 1 case initiated in the previous years, pending the court decision.

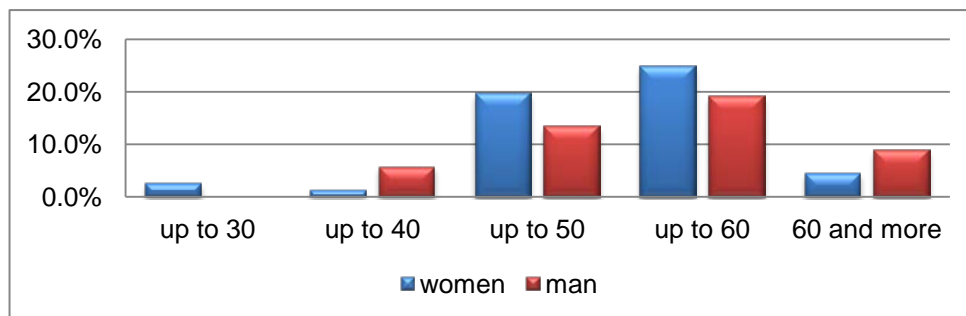
In 2019 the Department for disputed claims and recoveries stated their work with 1.189 pending cases in regard to uncollected recourse receivables (most of them are subject to enforcement action). During 2019 the Department brought 123 lawsuits against recourse debtors.

## **9.5 Human Resources**

Every company that strives to achieve better results and greater market success takes care for the development of its corporate culture. That is also the focus of the new VIG Group HR Strategy 2019-2021, which intent is to incite employee development (especially of the leaders and experts) in order VIG Group and its members to be recognised as diverse and innovative organisations.

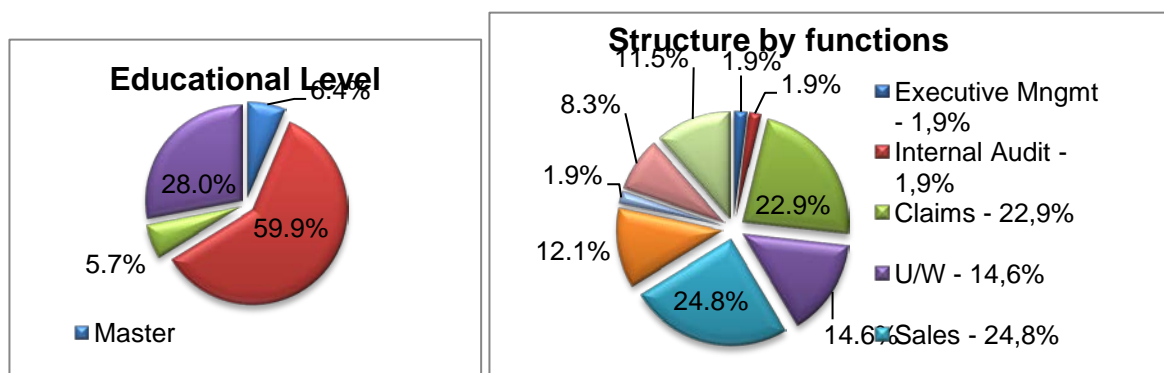
During 2019 our employees attended more than 80 trainings, workshops and conferences, by which we continue to fulfill our strategic goal to induce employees' personal development and improve their knowledge and expertise.

The Company, throughout its long existence, has been always distinguished by the equal employee representation in terms of gender and age, and aims to continue with that. The employee diversity can be seen on the following chart:



The employee turnover in 2019 resulted in further changes in Company workforce structure. The number of employees in the Company by December 31<sup>st</sup>, 2019 was 157, out of which 39 in sales function and 118 in other Company functions.

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



### 9.6 Information Technology

The main function of the IT Department of Insurance Makedonija a.d. Skopje - Vienna Insurance Group is proving 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.**

**The IT Department** is awarded ISO 27001:2013 certificate confirming 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 2019;
- 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 11.98 % or 88.02 % of the targeted IT cost savings for 2018;
- Achieve IT capital procurement by 93.07 %.

Some of the more important IT projects in 2019 are:

- Development and putting into production of a second phase of the project – implementation of MBA software solution for VIG companies in Albania;
- Development of a first phase of the project – implementation of MBA software solution for Sigma Kosovo;
- Development of WEB applications for online claims notification;
- Development of new software application for health insurance;
- SAP implementation;
- DMC implementation by many organisational units;
- Oracle base v.18 migration.

## **10. Financial Results**

For 2019 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, 2019, inclusive, 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 96.7 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 607.9 million which is by 3.6 % more than the outcome reported for 2018. The total written premium for non-life insurance is MKD 927.9 million which is by 2.0 % more than the result reported in 2018. It was corrected by the amount of unearned premium for 2018 reported as the income item and the amount of unearned premium for 2019 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 827.3 million. Total income achieved by the Company in 2019 shows a decrease of 3.6 % in comparison with 2018.

Total expenses show decrease by 3.9 % or in figure at MKD 30.1 million. Claims expenses of MKD 199.6 million and the underwriting expenses of MKD 429.3 million account for almost 86% of the total expenses. The investment expenses of MKD 24.4 million and other operating costs compose the total operating expenses at the amount of MKD 730.6 million.

The determined income and expenses as stated above show that the Company report positive financial result of MKD 96.7 million.

2019 income tax calculated on the achieved profit increased for the amount of non-deductible expenses and understated revenues for 2019 and additionally decreased for tax deduction, amounts to MKD 11.8 million.

President of the Management Board  
Bosko Andov

---

Member of the Management Board  
Vesna Gjorceva

---

Member of the Management Board  
Risto Sekulovski

---

In the reporting year the Company demonstrates positive financial result reaching the amount of MKD 96.7 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 607.9 million which is by 3.6 % more than the outcome reported for 2018. The total written premium for non-life insurance is MKD 927.9 million which is by 2.0 % more than the result reported in 2018. It was corrected by the amount of unearned premium for 2018 reported as the income item and the amount of unearned premium for 2019 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 827.3 million. Total income achieved by the Company in 2019 shows a decrease of 3.6 % in comparison with 2018.

Total expenses show decrease by 3.9 % or in figure at MKD 30.1 million. Claims expenses of MKD 199.6 million and the underwriting expenses of MKD 429.3 million account for almost 86% of the total expenses. The investment expenses of MKD 24.4 million and other operating costs compose the total operating expenses at the amount of MKD 730.6 million.

The determined income and expenses as stated above show that the Company report positive financial result of MKD 96.7 million.

2019 income tax calculated on the achieved profit increased for the amount of non-deductible expenses and understated revenues for 2019 and additionally decreased for tax deduction, amounts to MKD 11.8 million.

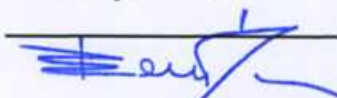
President of the Management Board

Bosko Andov



Member of the Management Board

Vesna Gjorceva



Member of the Management Board

Risto Sekulovski

