

Pursuant to Article 29 and Article 30 of the Law on Insurance Supervision and Article 480 paragraph 2 item 3 of the Trade Companies Law, and Article 33 of the Statute no. 02-3562/8-1 (as of April 23, 2019) of the Joint Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje – Vienna Insurance Group, the Supervisory Board of the Company has discussed and approved at its XLIII regular session held in April 05, 2022 the following

REPORT

**on the Operations of the Supervisory Board of
Insurance MAKEDONIJA j.s.c Skopje - Vienna Insurance Group**

TABLE OF CONTENT

- 1. LEGAL PROVISIONS.**
- 2. REPORT ON THE OPERATIONS OF THE COMPANY SUPERVISORY BOARD.**
- 3. REPORT ON THE CORPORATE GOVERNANCE CONTROL.**
- 4. FINANCIAL STATEMENTS AND EXTERNAL AUDITOR REPORT.**
- 5. INTERNAL AUDIT REPORT.**
- 6. PROPASAL FOR PROFIT DISTRIBUTION.**
- 7. FINAL PROVISIONS.**

1. LEGAL PROVISIONS

The operational functioning of the supervisory boards on insurance companies, their rights and responsibilities are regulated in the provisions of the local Law on trade companies, local Law on insurance supervision, and the bylaws issued by the Insurance Supervision Agency as insurance market regulator in Republic of North Macedonia.

In accordance with article 480 paragraph 3 of the local Law on trade companies, the supervisory board shall submit to the shareholders a written report on the results of the supervision. In the report, the the supervisory board shall state the manner of supervision and the scope of supervision over the Company's management during the previous business year. The report shall also state the opinion regarding the results of the audit made by the authorized auditors for the annual account and financial reports, as well as the notes by the auditors to the compiled annual account statements and financial reports, and shall propose whether they are to be adopted or not.

2. REPORT ON THE OPERATION OF THE COMPANY SUPERVISORY BOARD FOR THE FINANCIAL YEAR 2021

In the financial year 2021, the Supervisory Board of the Joint Stock Company for Insurance and Reinsurance MAKEDONIJA Skopje – Vienna Insurance Group (hereinafter: The Company) Skopje performed its duties in compliance with legal requirements and regulations in the Republic of North Macedonia, Company Statute and the Supervisory Board Bylaws and with other acts of the Company following standards on corporate governance of VIENNA INSURANCE GROUP (herein after: VIG).

During the course of the financial year 2021, the Supervisory Board continued monitoring the work of the members of the Management Board and regularly advised them in running the business of the Company providing proper guidance based on the reported findings.

Last year, the Supervisory Board of the Company held 7 meetings in total. The necessary supporting documentation and the Minutes of all Supervisory Board meetings were duly and properly collected and signed. The copies of all documentation on the work of the Supervisory Board are filed in the head office of the Company.

The members of the Supervisory Board regularly addressed and discussed all relevant issues related to business operations of the Company with the members of the Management Board.

On its meetings, the Supervisory Board discussed all legally binding issues, reviewed the quarterly reports of the Company and any other fundamental issues related to the business activities of the Company as requested by the Supervisory Board or the Management Board.

The shareholders, through the official web site of the Company and through the electronic reporting system of listed companies of the Macedonian Stock Exchange SC Skopje, were provided with all necessary documents and reports that the Company is obliged to prepare in accordance with the provisions of the local legislative.

The Supervisory Board comprises four (4) members as of December 31, 2021.

The members of the Supervisory Board are:

1. **Mr. Gabor Lehel** – President of the Supervisory Board;
2. **Mr. Andreja Josifovski**, Independent member of the Supervisory Board;
3. **Mr. Philipp Bardas** – Member of the Supervisory Board; and
4. **Mr. Reinhard Goyer**, Independent member of the Supervisory Board.

Pursuant to provisions of the Trade Companies Law, the Law on Insurance Supervision and subordinate acts enacted by the Insurance Supervision Agency, all members of the Supervisory Board performed their functions meeting the required conditions and regulations.

During the course of the financial 2021, the Insurance Supervision Agency was provided with all necessary reporting and evidence on fit and proper criteria and the fulfilment of the standards thereon by the members of the Supervisory Board as persons who are eligible to carry out the function of supervising body members of any insurance undertaking following the enacted and amended provisions to the Law on Amendments to the Law on Insurance Supervision.

Following a decision issued by the Shareholders Assembly of the Company, the members of the Supervisory Board do not receive compensation for performing their function.

The Supervisory Board has established excellent cooperation and communication with the Management Board of the Company and with the: 1) Authorised Actuary, 2) the Internal Audit, 3) the Risk Management, 4) the Compliance and the 5) appointed external auditors (fully and without any exceptions in line with the required legal regulations in the Republic of North Macedonia and with standards on corporate governance of the VIG).

In the financial 2021, the following crucial documents were discussed and adopted: 1) 2020 Company Annual Accounts, 2) 2020 Company Financial Statements, 3) 2020 Company Annual Report, 4) 2020 Company Actuary Report and Actuary Certificate, 5) 2020 External Audit Report on reviewed 2020 Annual Accounts and 2020 Financial Statements, 6) profit allocation stated with the 2020 Annual Accounts, 7) 2020 Management Board Operation Report, 8) 2020 Internal Audit Report of the Company, 9) 2021 Quarterly operating results of the Company including every quarter respectively, 10) 2022 Company Budget, 11) 2022 Business Plan of the Company, 12) 2022 Risk Management Plan of the Company, 13) 2022 Reinsurance Program of the Company, 14) 2022 Reinsurance Agreements of the Company, 15) 2022 Investment Strategy of the Company, 16) 2022 Operation Plan of the Internal Audit of the Company.

In the meetings, the Supervisory Board addressed many other relevant issues on the business activities of the Company and ensured that proper conclusions were adopted and instructions given to support the work of the Management Board.

It can be concluded that in 2021 the Supervisory Board and the members thereof performed their duties and obligations closely observing the regulations and provisions laid down by the Law on Insurance Supervision, Trade Companies Law, Company Statute and applied the Supervisory Board Bylaws and other supplementary acts for the purpose of supervision over the work of the Management Board and report to the Shareholders on every legally binding issues.

The Supervisory Board proposes the Shareholders of the Company, on the 2021 Annual Shareholders Meeting, to adopt resolution for approval of the work of the Supervisory Board s (individually for each member, and collectively as a Board).

3. REPORT BY THE SUPERVISORY BOARD ON THE COMPANY CORPORATE GOVERNANCE.

Pursuant to the provisions of the Trade Companies Law, the provisions of the Law on Insurance Supervision and the Statute of the Company, the Supervisory Board is the supervising body in function to monitor the work and supervise and control the operation of the managing body or control the corporate governance policy of the Company.

During the course of 2021, the Supervisory Board, in accordance with the legal provisions and the Statute of the Company, thoroughly, responsibly and reliably monitored the operation of the Management Board of the Company. Within its operations, the Supervisory Board carried out its control function partially through the work of the Internal Auditor of the Company as well.

In the financial year 2021, the Supervisory Board, in accordance with the legal provisions and the Statute of the Company was fully aware of the overall operations of the Company, reviewed and controlled all aspects of the operations, regularly monitored the financial statements and reports and analysed the results comparing them with the ones achieved in the previous business years. The Supervisory Board conducted corporate control of the Company during the last financial year taking into consideration the whole economic environment.

Most of the information about the operations of the Company, the Supervisory Board received through electronic channels of communication and hardcopy documents which were provided by the Management Board of the Company and other departments and units upon prior request and distributed at the meetings of the Supervisory Board.

During the entire financial year 2021, the Supervisory Board of the Company regularly received prompt and timely reports on the important business activities of the Company and on the fundamental decisions made for the purpose to ensure the compliance of the operations of the Company with the legal requirements and regulations. The Supervisory Board reviewed each of the submitted reports in depth and analysed every aspect of the operations paying particular attention to financial situation. The actual financial results were compared with the results stated in the previous quarter reports or semi-annual

reports or with the budgeted activities stated in the previously adopted operational plan for the financial 2021.

During the course of the last financial year, the members of the Supervisory Board, as part of their duties, carried out effective control over the reports of the Internal Audit of the Company and regularly provided the Company with their comments, instructions, directions and guidelines on the internal audit function in order to ensure that their activities complied with the adopted Annual Internal Audit Plan.

As it is already stated above, during the reporting year 2021, the Supervisory Board of the Company held seven (7) meetings in their full capacity. Taking in consideration the situation caused by the Covid 19, the meetings of the Supervisory Board were held electronically via telecommunication network. Within its authorities governed by the statutory regulations and legal requirements and the Company Statute the Supervisory Board gave advises and necessary approvals and consents to the Management Board.

At the meetings, the Supervisory Board reviewed and discussed all major issues within their delegated authorities, primarily matters related to the financial statements and the annual accounts for the period of the previous business year, as well as to the quarterly reports.

The Supervisory Board also audited the accompanying/additional financial statements, including the Statement of financial position as of December 31, 2021, consolidated statement of comprehensive income, consolidated shareholders' equity, statement of cash flows, reviews of relevant accounting policies and other explanatory notes.

At the meetings of the Supervisory Board where the financial statements were reviewed, there also participated the members of the Management Board and managers of respective departments and units in order to provide additional detailed explanations of the results stated under different positions of the financial statements, so that the Supervisory Board could adopt a fit and proper decision.

The Supervisory Board, after reviewing the 2021 Annual Report of the Company and the financial statements and having considered the external audit report, concluded that from all material aspects, the financial statements reported objective and accurate results

related to the financial situation of the Company as of December 31, 2021 and in full compliance with the statutory regulations.

Having considered the current economic situation and the proper measures taken to ensure effective and efficient operations and growth in productivity of the Company, the Supervisory Board concludes that the Company operated successfully in the financial 2021 evidenced by the achieved positive financial results.

The positive financial results for the business year 2021 were achieved thanks to the supreme engagement of the Management Board together with the Company management team and all of the employees.

It can be concluded that in 2021 the Management Board and the members thereof performed their duties and obligations closely observing the positive legislation.

The Supervisory Board adopts the work of the Management Board of the Company.

The Supervisory Board proposes the Shareholders of the Company, on the 2021 Annual Shareholders Meeting, to adopt resolution for approval of the work of the Management Board s (individually for each member, and collectively as a Board).

4. FINANCIAL STATEMENTS AND EXTERNAL AUDTOR REPORT

The Supervisory Board of the Company reviewed and **adopted the Report of the Audit Services Company PricewaterhouseCoopers AUDIT LLC Skopje (PwC) on the operations of the Company for the financial year 2021 and proposed that it should be adopted at the Annual General Meeting of the Company.**

In the respective audit report, the external auditor noted opinion that the financial statements are objectively presenting, in all material aspects, the Company financial position as of December 31th 2021. Te results of the operations of the Company, as well as the cash flows for the year ending are in line with the legislation issued by the Insurance Supervision Agency.

The external auditor noted that the 2021 Annual Report (prepared by the Company Management Board in accordance with article 384 of the Law on trade companies) is consistent in all material aspects with the financial information's noted in the 2021 Annual Account and audited financial statements.

The Supervisory Board of the Company reviewed the 2021 Annual Accounts and 2021 Financial Statements of the Company. It can be confirmed that the business year 2021 is finished with positive financial results.

The Company underwrote all classes of business for which there was a demand on the insurance market so that the Company created rather balanced insurance portfolio. In selling insurance policies the Company used all channels of distribution available under the provisions laid down by the Insurance Supervision Law and subordinate acts enacted by the Insurance Supervision.

The main objective of the investment strategy was for the Company to obtain stable low risk investment income and create sustainable liquidity to meet its obligations.

As usual, the claims expenses account for the greatest part of the total expenses for 2021. The gross paid claims are in positive ratio in regards to the gross written premium. The claims handling team was devoted to efficient, effective and fair claim service delivery. Claims handling services are provided by team of skilled Company professionals and outsource (claim assessors, experts and medical censors) and therefore excellent cooperation has been established with numerous repair services, health care intuitions and other specialised facilities for the purpose of prompt claim service delivery to the satisfaction of clients and their needs.

The net combined ratio of the Company is 2021 is also positive, as it was expected, as it was planned with the 2021 Company Plan of Operations.

For 2021 the Company fully met requirements in terms of the capital volume and the solvency margin level so that the liquidity of the Company was never disputed, and more important fact is that the Company set up proper and appropriate technical provisions.

During the course of the last financial year the Company regularly classified receivables in compliance with all accounting standards, and paid particular attention to collection of all

due receivables. For the purpose that perfect service delivery is offered to clients and partners, the Company meticulously managed its interests in terms of premium collection.

The Management Board fully implemented the planned activities related to risk management and all risks were timely and promptly anticipated and managed. To this end, the Company conducted regular control over the enactment of the acts of the Company and of the legal regulations, and the Company paid special attention to ensure that policies and procedures in relation to reinsurance, underwriting, investment of funds, personal data protection, and IT security system are put in place.

During the course of the financial 2021, the Company acted in accordance with the planned activities and all of the foreseen objectives were achieved. The Company showed success in every aspect if compared to the achievements of the previous business years which resulted in increased efficiency and profitability and improved capacity of after sales services, especially in terms of claims handling processes. The effective, efficient and fair claim service delivery was and will remain the top priority of the Company.

As of December 2021, the Supervisory Board approved 2022 Business Plan, according to which the Company shall continue to develop steady growth in all segments of its operation and improve its successful performances. The operations of the Company will focus on the clients' needs and service deliveries, as well as on profitability and compliance with legal regulations.

Just as in past years, the Company will gradually continue its developments and improvements avoiding any exposure to more excessive risks that may disrupt the operations whereas the professional competence of the employees shall be one of the main focal points for the Company.

Taking in consideration the noted information's, the Supervisory Board of the Company adopts the proposed 2021 Annual Report, the 2021 Annual Account of the Company, the 2021 Financial Statement of the Company, and the 2021 Report issued by PwC as elected external auditor.

The Supervisory Board proposes the Shareholders of the Company, on the 2021 Annual Shareholders Meeting, to adopt resolutions for approval of 2021 Annual Report, the 2021

Annual Account of the Company, the 2021 Financial Statement of the Company, and the 2021 Report issued by PwC as elected external auditor.

5. INTERNAL AUDIT REPORT

The Internal Audit is an internal and independent organizational unit of the Company that provides objective and independent assessments of the: 1) adequacy and the effectiveness of the internal control system, 2) accuracy of the accounting records and financial statements, 3) compliance with the internal policies and procedures with applicable legislative and 4) overall efficiency of the Company operations.

In accordance with the 2021 Annual Plan of the Internal Audit, the internal auditors of the Company performed audit on the following functions: Human Resources and Payroll (including training and labour cases), Corporate Governance, underwriting and Sales (including reinsurance, marketing and public relations), Information Technology, Protection of Personal Data and Video Surveillance, Claims (including reinsurance and complains), Finance (accounting, investments, credit risk management and litigated debts) and Compliance (including returns to regulators and the Group and Solvency II). All audits were commenced as planned and carried out following annual plan deadlines.

All noted functions were audited in terms of respective strategies, policies, processes and operational procedures, underlying systems of internal controls and their effectiveness, compliance to the internal insurance general and specific conditions and tariffs, authorities, business policy acts and local legislative as well as Group instructions & policies as well as Solvency II.

In spite the persisting COVID 19 crises, as already working under aggravated conditions and constrains for almost two years, the Internal Audit managed to address and cover all material areas, activities and transactions from completed audits. Few activities which could not be fully addressed in 2021, again due to the COVID-19 outbreak were revisited and covered in 2022 respective audits. In many instances the Internal Audit had to mainly rely on system data and reports and remote contacts and communication with respective employees, but that proved to be sufficiently effective so that audit quality would not be impaired.

All functions were analyzed in regards to their strategies, policies, process and procedures, implemented internal controls and their effectiveness, compliance with internal insurance terms, conditions and tariffs, authorizations, local legislative, as well as the VIENNA INSURANCE GROUP policies and procedures.

During the 2021, the internal audit prepared and timely submitted to the local regulator a report on its work in 2020. Additionally, to the Internal Audit of VIG the internal auditors have submitted special annual report prepared in accordance with the VIG standards.

The Internal Audit Plan for the business year 2021 is implemented completely, in terms of audit filed work and reporting.

In the course of the audits conducted in 2021, the auditors identified low risk findings, findings that have no significant adverse effect on the Company operations and results. Appropriate activities, owners of activities (responsible persons) and deadlines for execution were agreed for all reported findings.

The audit opinions of all the audited functions were "Sound" with stable control environment trend indicator.

The Supervisory Board reviewed the 2021 Company Internal Audit Report. This Report is approved by the Supervisory Board, and it is proposed to be adopted by the shareholders on the 2021 Annual Shareholders Meeting.

The contents of the respective reports, the findings, identified weaknesses and the recommendations given to improve some of the controls in the internal control system were reviewed at the meetings of the Supervisory Board. Moreover, the Supervisory Board also monitors the responsibilities of the management and of the organisational units arising from the recommendations of the internal auditor in terms of improving the conditions as stated in the submitted semi-annual and annual reports wherein the status and level of implementation of the given recommendations are presented.

Based on the submitted reports, the Supervisory Board of the Company evaluates the work of the Internal Audit as an independent, objective and professional function acting in line with the adopted principles and the Code of Business Ethics of the Company employees.

The methodology of the Internal Audit function goes in line with the best practices of the internal audit activities, as well as in line with the Group Rulebook on Internal Audit and the legal regulations applicable in the Republic of North Macedonia. The regular and additional activities of the Internal Audit are in accordance with the adopted internal audit plan, which was approved by the Supervisory Board of the Company. The Internal Audit submitted reports which contained high-quality, comprehensive and clearly formulated findings and recommendations to the Supervisory Board in promptly and timely manner during the entire previous year.

The opinion of the Supervisory Board is that the 2021 Internal Audit Annual Report is of high quality, comprehensive and objective, and that the contents of this report Annual Report complied with the provisions laid down by the legal regulations, and that the conducted audits from the aspect of their scope and dynamics are in line with the previously defined and approved Annual Work Plan and within the scope and delegated authorities.

6. PROPOSAL FOR DISTRIBUTION OF PROFIT

The Supervisory Board reviewed the proposal for 2020 profit distribution and suggested that the Annual General Meeting should adopt the decision on the distribution of profit after tax in line with the positions, including 18.190.077 MKD for legal reserves, 36.380.154 for undistributed profit.

7. FINAL PROVISION

During the operations in 2021, the Supervisory Board performed continued monitoring of the operations of the Management Board of the Company. In 2021 the Company Management Board justified the trust given by the Supervisory Board, which is evident from the positive results of its operations (in 2021 the Company achieved positive results in every aspect).

The Supervisory Board (after reviewing the 2021 Annual Report, reviewing the 2021 Financial Statements, reviewing the 2021 Report on the operations of the Management Board, and reviewing the 2021 External Auditor Report) concludes that the financial condition and the financial statements of the Company are presented objectively in all material aspects, in accordance with the provisions of the local legislative.

The Supervisory Board assesses the operations of the internal audit of the Company as independent, objective and professional, in accordance with the adopted principles.

The Supervisory Board submits positive opinion for the business year 2021 to the shareholders of the Company. This positive opinion refers to the operations of the Management Board of the Company in 2021, the work of the Internal Audit of the Company in 2021, and positive opinion regarding the 2021 Annual Audited Report by the external auditor, the 2021 Annual Report, the 2021 Annual Account, and 2021 Financial Statements,

**Joint Stock Company for Insurance and Reinsurance
MAKEDONIJA Skopje – Vienna Insurance Group**

Supervisory Board

President of the Supervisory Board

Gabor Lehel

Member of the Supervisory Board

Andreja Josifovski

Member of the Supervisory Board

Philipp Bardas

Member of the Supervisory Board

Reinhard Goyer
