IC SCARDIAN J.S.C.

Independent Auditors' Report and Financial Statements for the year ended December 31, 2022

Table of Contents

Independent Auditors' Report	1
Statement of Financial Position	3
Statement of Profit or Loss and other Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flow	6
Notes to the financial statements	7 - 45
Annex I - Solvency Margin	i
Annex II -Capital Calculation	ii
Annex III - Assets covering technical provisions	iii

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INDEPENDENT AUDITORS' REPORT

To the Management and the Shareholders of IC SCARDIAN J.S.C.

Opinion

We have audited the accompanying financial statements of Insurance Company SCARDIAN J.S.C. ("the Company"), which comprise: the statement of financial position as at December 31, 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Company SCARDIAN J.S.C. (the "Company") as at 31 December 2022, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The company's financial statements for the year ended December 31, 2021 were audited by another auditor, who expressed an unqualified opinion on those financial statements on April 30, 2022.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Kosova L.L.C.
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April 24, 2023

IC SCARDIAN J.S.C.
Statement of financial position
As at December 31, 2022

	Note	31 December 2022 (EUR'000)	31 December 2021 (EUR'000)
Assets			
Property and equipment	9	509	466
Investment property	10	1,838	1,838
Right-of-use assets	11	208	199
Intangible assets	12	342	367
Reinsurance assets	13	193	2,426
Securities at fair value through OCI	14	500	250
Term deposits with banks	15	16,066	13,574
Deferred acquisition costs	16	832	663
Insurance and other receivables	17	1,043	1,048
Receivables from Related parties		103	112
Corporate income tax prepayment		79	-
Other assets	18	608	718
Cash and cash equivalents	19	627	2,037
Total assets		**22,948**	**23,698**
Liabilities			
Insurance contract liabilities	21	7,263	6,279
Unearned premium reserve	22	7,134	5,817
Insurance and other liabilities	23	621	2,518
Income tax payable		94	135
Lease liabilities	11	215	205
Total liabilities		**15,327**	**14,954**
Shareholders' equity			
Shareholders' equity	20	5,538	6,838
Accumulated profit		2,083	1,906
Total shareholders' equity		**7,621**	**8,744**
Total equity and liabilities		**22,948**	**23,698**

Authorized for issue by the management and signed on its behalf on April 24, 2023.

Hekuran Neziri
General Director

Fatos Krasniqi
Finance Director

The notes on pages 7 to 43 are an integral part of these financial statements.

IC SCARDIAN J.S.C.
Statement of Profit or Loss and other Comprehensive Income
For the year ended December 31, 2022

	Note	Year ended 31 December 2022 (EUR'000)	Year ended 31 December 2021 (EUR'000)
Gross written premium	24	16,211	12,690
Change in provision for unearned premiums		(1,317)	(1,098)
Change in provision for reinsurance unearned premiums		24	91
Net written premiums		**14,918**	**11,683**
Less: Premium ceded to reinsurers	25	(403)	(1,448)
Net earned premiums		**14,515**	**10,235**
Financial income	29	329	265
Reinsurance commission	28	-	731
Other income		124	321
Total revenues		**14,968**	**11,552**
Claims paid gross		(6,299)	(5,739)
Contribution to Guarantee Fund		(532)	(390)
Reinsurer's share of claims paid		-	1,844
Change in gross insurance contract liabilities		(984)	(1,430)
Change in reinsurance share of insurance contract liabilities		(385)	(174)
Net insurance claims		**(8,200)**	**(5,889)**
Share of expenses to KIB		(214)	(168)
Acquisition cost	26	(1,395)	(960)
Depreciation and amortization expenses		(454)	(408)
Administrative expenses	27	(3,015)	(2,520)
Total expenses		**(13,278)**	**(9,945)**
Interest expenses	29	(14)	(14)
Profit before tax		**1,676**	**1,593**
Income taxes	30	(297)	(292)
Net profit for the year		**1,379**	**1,301**
Other comprehensive income		(2)	-
Total comprehensive income		**1,377**	**1,301**

The notes on pages 7 to 43 are an integral part of these financial statements.

IC SCARDIAN J.S.C.
Statement of Changes in Equity
For the year ended December 31, 2022

	Shareholders' equity (EUR'000)	Accumulated Profit (EUR'000)	Total Shareholders' Equity (EUR'000)
At 1 January 2021	6,838	1,705	8,543
Profit for the year	-	1,301	1,301
Dividends	-	(1,100)	(1,100)
Other comprehensive income	-	-	-
At 31 December 2021	**6,838**	**1,906**	**8,744**
Profit for the year	-	1,379	1,379
Decrease of paid in capital	(1,300)	-	(1,300)
Dividends	-	(1,200)	(1,200)
Other comprehensive income	-	(2)	(2)
At 31 December 2022	**5,538**	**2,083**	**7,621**

IC SCARDIAN J.S.C.
Statement of Cash Flow
For the year ended December 31, 2022

	Note	31 December 2022 (EUR'000)	31 December 2021 (EUR'000)
Cash flows from operating activities			
Profit for the year		1,676	1,593
Adjustments for:			
Depreciation and amortization		454	407
Interest income		(329)	(265)
Interest expenses		14	14
Impairment of receivables		39	75
Cash flows from operating profits before changes in operating assets and liabilities		**1,854**	**1,824**
Changes in gross claim reserves		984	1,430
Changes in premium reserves		1,317	1,098
Changes in deferred acquisition costs		(169)	(149)
Changes in insurance premiums receivables and other receivables		(33)	(272)
Changes in receivables from related parties		10	1,296
Changes in reinsurance assets		2,233	(1,039)
Changes in other assets		110	(187)
Changes in insurance and other liabilities		(1,897)	1,368
Cash generated from operations before interests and tax		**4,409**	**5,369**
Income tax paid		(297)	(276)
Net cash generated from operating activities		**4,112**	**5,093**
Cash flows from investing activities			
Purchase of fixed assets, intangible assets		(336)	(358)
Increase in term deposits		(2,492)	(2,801)
Interest paid		(14)	(14)
Interest receives		62	197
Changes in securities at fair value through OCI		(252)	-
Cash flow used in investing activities		**(3,032)**	**(2,976)**
Cash flows from financing activities			
Dividend payment		(1,200)	(1,100)
Decrease of paid in capital		(1,300)	-
Lease liabilities		10	(136)
Cash flow used in financing activities		**(2,490)**	**(1,236)**
(Decrease)/increase in cash and cash equivalents		**(1,410)**	**881**
Cash and cash equivalents at beginning of the period		2,037	1,156
Cash and cash equivalents at end of the period		**627**	**2,037**

The notes on pages 7 to 43 are an integral part of these financial statements.

1. General information

IC Scardian J.S.C (the "Company") was incorporated under the laws of the Republic of Kosovo and registered with the Ministry of Trade and Industry under registration no. 810838138 as a joint stock company. The Company is 100% owned and controlled by Fundway L.L.C., being the ultimate parent company.

The Company is licensed as a non-life insurance company. The main business activity of the Company is motor third-party liability insurance and other classes of insurance such are:

- Property insurance;
- Health Insurance;
- Travel health insurance;
- Personal accidents;
- Casco;
- Construction All Risk (CAR), etc.

The Company's registered office is located at: street Perandori Justinian no 69, Pristina, Republic of Kosovo.

On December 31, 2022 the company employed 204 employees.

2. Adoption of new and revised International Financial Reporting Standards

2.1. Standards, amendments and interpretations that are already effective.

In the current year, the Company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2022.

2.1.1 Amendments to IFRS 3 Reference to the Conceptual Framework

The Company has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists because of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

2. Adoption of new and revised International Financial Reporting Standards (continued)

2.1.2 Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use

The Company has adopted the amendments to IAS 16 Property, Plant and Equipment. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

2.1.3 Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract

The Company has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

2.1.4 Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Company has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

1. <u>IFRS 1 First-time Adoption of International Financial Reporting Standards</u>

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

2. Adoption of new and revised International Financial Reporting Standards (continued)

2.1.4 Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle (continued)

2. <u>IFRS 9 Financial Instruments</u>

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

3. <u>IFRS 16 Leases</u>

The amendment removes the illustration of the reimbursement of leasehold improvements.

4. <u>IAS 41 Agriculture</u>

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

2.2 Standards, amendments and interpretation issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

2.2.1 IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

2. Adoption of new and revised International Financial Reporting Standards (continued)

2.2.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

2.2.3 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

2.2.4 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

2.2.5 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

2. Adoption of new and revised International Financial Reporting Standards (continued)

2.2.6 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

These standards, amendments or interpretations are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

3. Basis of preparation

Statement of compliance These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 2 for adoption of new or revised standards and interpretations and new accounting pronouncements adopted by the Company). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates.

Functional and presentation currency. These financial statements are presented in Euro ("EUR"). EUR is the Company's functional currency, currency of the primary economic environment in which it operates, the Republic of Kosovo.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Company, unless otherwise stated.

4.1 Foreign currency transactions

Foreign currency transactions are transactions undertaken by the Company other than in its functional currency. Foreign currency transactions are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

4.2 Classification of insurance contracts

The Company's underwritten non-life insurance risks for accounting purposes are classified at inception as insurance contracts. A contract, which is classified as an insurance contract remains as such until all rights and obligations are extinguished or expire. Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts, Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified variable(s) such as interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract, Insurance contracts may also transfer some financial risk.

General insurance contracts. Insurance liabilities are calculated separately for all insurance products and are composed of premium contingency (unearned), risk contingency (unexpired) and loss contingency (not paid as at the closing date of the financial year). Insurance liabilities (provisions) represent estimates of future payments for reported and unreported claims. The Company does not discount its insurance liabilities. Any changes in estimates are reflected in the results of operations in the period in which estimates are changed. Insurance liability estimation is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. The Company has used the requirements of the insurance regulators or supervisors to set up the appropriate insurance liabilities.

Premiums arising from general insurance business. Gross written premiums comprise the amounts due during the financial year in respect of direct insurance regardless of the fact that such amounts may relate wholly or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums, if any. Premiums are earned from the date of underwriting risks, over the indemnity period, based on the pattern of risks underwritten.

4. Significant accounting policies (continued)

4.2 Classification of insurance contracts (continued)

Unearned premium reserve. The provision for unearned premiums across all business segments comprises the proportion of gross premiums written which is estimated to be earned in the following financial year, using the daily pro - rata basis 1/365, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. Unearned premiums are those proportions of the premium which relate to periods after the reporting date. Unearned premium is calculated on written premiums which are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums. The Regulation of the Central Bank of Kosovo regulate the calculation of unearned premium reserves "On calculation and retention of technical and mathematical reserves for non-life and life insurers".

Deferred acquisition costs. Acquisition costs are the costs that an insurer incurs to sell, underwrite and initiate a new insurance contract. Acquisition costs that are incremental to the underwriting of the premiums are capitalized and charged to expense in proportion to premium revenue recognized. To associate acquisition costs with related premium revenue, acquisition costs are allocated by groupings of insurance contracts consistent with the Company's manner of acquiring, servicing, and measuring the profitability of its insurance contracts. Unamortized acquisition costs are classified as an asset.

Claims arising from general insurance business. Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as the changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Insurance liabilities for claims outstanding are not discounted.

Adjustments to claims insurance liabilities established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The insurance liabilities for incurred but not reported claims are estimated based on Chain Ladder paid triangles method for Motor Third Party Liability ("MTPL"). For MTPL plus, Casco, Personal Accidents, Travel Health, Property and Health Insurance, the Simple Ratio method was used. Reserve for Incurred but not reported ('IBNR') claims for Border Guarantee fund is determined by Kosovo Insurance Bureau ('KIB').

4. Significant accounting policies (continued)

4.2 Classification of insurance contracts (continued)

Claims and reserves arising from the compensation fund. On behalf of all insurance companies licensed by the Central Bank of Kosovo to underwrite CTPL insurance in Kosovo, the Kosovo Insurance Bureau ("KIB") administers the system to sell compulsory third party liability motor vehicle insurance ("CTPL") at the border of the Republic of Kosovo (the "pool") to drivers of foreign registered vehicles not in possession of such insurance. KIB remits the monthly share of the gross premiums received (including VAT and premiums tax, which are then included in the insurance companies' own tax returns), to each insurance company. Each insurance company is required to contribute a specified percentage to gross premiums received (net of related premium tax) to KIB for the claims and other administrative costs of the pool and the membership activities of KIB. The accounting treatment of written premiums and insurance reserves determined by KIB, is the same as the treatment for the other categories of written premiums and insurance reserves, respectively.

In addition, each insurance company is required to contribute to KIB for the Guarantee Fund of Kosovo ("Guarantee Fund"), which was established under "Rule 3, an amending rule on Compulsory Third party Liability Motor Vehicle Insurance", Section 4 dated 27 June 2002. The guarantee fund is used to settle insurance claims related to accidents caused by uninsured vehicles, unknown vehicles or other specified events. It is funded equally by all the insurance companies in Kosovo licensed by the CBK to underwrite CTPL insurance. The insurance companies have taken collective responsibility for providing the Guarantee Fund with sufficient funding to be able to meet all future claims in the event that claims and costs incurred by the Guarantee Fund are in excess of its retained surplus. Claims reserves from KIB are part of the Company's insurance contract liabilities. Contribution for the compensation fund is recognized in profit or loss as incurred.

Liability Adequacy Test. At each reporting date the Company performs test to ensure the adequacy of claim insurance liabilities. The primary tests performed are Claim Ratio Analysis and Run-off analysis of claim reserves. The claim ratio analysis is performed annually on the major lines of business individually. The calculation is performed on claims alone as well as claims including acquisition costs and any other external claim handling costs. In performing this analysis the Company takes into account current estimates of cash outflows. The Company does not discount these estimated cash flows because most claims are expected to be settled within one year.

The Company performs the run-off analysis of claim reserves to assess its provisioning methodology. The run-off analysis is performed on RBNS and IBNR separately as well as on combined basis. In case the analysis shows major discrepancies, proper adjustments are made to the reserving methodology. If a deficiency is identified it will be charged immediately to profit or loss by establishing an unexpired risk provision from losses arising from Liability Adequacy Test.

4. Significant accounting policies (continued)

4.2 Classification of insurance contracts (continued)

Reinsurance. The Company ceded reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets and liabilities arising from ceded reinsurance risks are presented separately as assets and liabilities from related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligation to its policy holders. The Company's reinsurance policy is established in order to limit its potential losses arising from longer exposures to Motor Third Party Liability ("MTPL"), Property and Liabilities lines of business. Treaty agreements represent reinsurance at portfolio level. They cover all claims of the portfolio up to a certain amount (excess of loss) or on quota share basis.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk, are accounted for as financial instruments. Insurance premiums ceded to reinsurers are recognized in profit or loss on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period the reinsurance coverage is provided based on the pattern of the reinsured risk.

The unexpended portion of the ceded reinsurance premiums is included in the reinsurance assets. The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the insurance liabilities held in respect of the related insurance contracts. Reinsurance receivables include reinsurance commission in respect of premiums ceded to the reinsurer and recoveries due from reinsurance companies in respect of claims paid. These are classified as receivables and are disclosed separately, if any. Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliable measurable impact on the amounts that the Company will receive.

Premium reserve portfolio. When a new reinsurer participates in a treaty based on the accounting year or when the involvement in a period of an existing participating reinsurer increases, the unearned premium received is calculated by the reinsurer for participating in risks for which the premium has already been collected but not yet earned. Premium portfolio entry at the beginning of the reinsurance period is the reinsurance percentage share of the unearned premiums at the beginning of period.

4.3 Financial instruments

Consistent with requirements of IFRS 4 amendments "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts", the Company decided to defer adoption of IFRS 9. The Company expects to apply IFRS 9 from 2023 and it has not applied it at any earlier stage. The Company's financial instruments are measured at amortized cost or fair value through other comprehensive income and are classified depending on their measurement category. The financial assets meet the sole payment of principal and interest criteria and would thus be measured the same under IFRS 9. Credit ratings are provided in notes 15 and 16 respectively.

4. Significant accounting policies (continued)

4.3 Financial instruments (continued)

i) Recognition

The Company's financial instruments (assets and liabilities) are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

ii) Classification

Financial assets of the Company are classified as available for sale investments in securities (AFS). Financial liabilities are classified as other financial liabilities (including insurance/trade liabilities and other liabilities) and are accrued when the counterparty performs its obligations under the contract and are carried at amortized cost using the effective interest method.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Loans and receivables include term deposits with banks and insurance and other receivables and are carried at amortized cost using the effective interest method, net of provision for incurred impairment losses.

iii) Derecognition

The Company derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

iv) Amortized cost measurement

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

4. Significant accounting policies (continued)

4.3 Financial instruments (continued)

v) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions, such as in the Company's trading activity.

vi) Impairment of financial assets carried at amortized cost

Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status, liabilities that can be offset for the same customer and realizability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganization.
- there is adverse change in the payment status of the counterparty because of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases because of deteriorating market conditions.

4.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost using the effective interest method. Term deposits with original maturities of more than three months are classified as term deposits with banks as a sub-category of loans and receivable financial assets.

4. Significant accounting policies (continued)

4.5 Term deposits

Term deposits are stated at the amount of principal outstanding and are classified according to their maturities. Term deposits with maturities of less than three months are classified as cash equivalents.

4.6 Other receivables

Other receivables are stated at their cost less impairment losses.

4.7 Insurance receivables

Insurance receivables are initially recognized at fair value and subsequently measured at their amortized cost less impairment losses and include cash held by agents, Insurance receivables are assessed for impairment on each reporting date.

4.8 Prepayments

Prepayments are carried at cost less provision for impairment and included in other assets. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit or loss for the year.

4.9 Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

The income tax charge comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

4. Significant accounting policies (continued)

4.8 Income tax (continued)

Current tax is the amount expected to be paid to, or recovered from, the taxation authority in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes other than income are recorded within operating expenses.

Starting from 5 August 2019, based on the requirements of new Law No.06/L-105 on Corporate Income Tax, which is in force from then, insurance companies calculate income tax based on taxable profit or losses before tax for the period and their expenses are thus considered deductible.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

4.9 Property and equipment

On initial recognition, items of property, plant and equipment are recognized at cost, which includes the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. After initial recognition, items of property, plant and equipment are carried at cost less any accumulated depreciation and impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows.

4. Significant accounting policies (continued)

4.9 Property and equipment (continued)

The annual depreciation rates are:

	%
Office furniture and equipment	20
Vehicles	20
Computers	20

The residual value, if not insignificant, is reassessed annually. Leasehold improvements are capitalized and depreciated over the lesser of their useful life and the lease term.

Depreciation methods and useful lives are reassessed, and adjusted if appropriate, at each reporting date.

4.10 Right-of-use assets

The Company leases only offices. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. For leases of real estate for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability.
- any lease payments made at or before the commencement date less any lease incentives received.
- any initial direct costs; and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives.

Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Useful life
Offices	1 - 10 years

4.11 Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives, if any. Intangible assets consist of software licenses and are amortized on straight-line basis over 5 years. Other Intangible Assets Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset.

4. Significant accounting policies (continued)

4.12 Impairment of non-financial assets

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment or intangible assets with definite useful lives. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year.
An impairment loss recognized for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

4.13 Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation because of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense within finance costs.

4.14 Premium tax

Premium tax refers to Corporate Income Tax for insurers which has been provided for in the financial statements in accordance with legislation enacted or substantively enacted until 5 August 2019. Until then, in accordance with Republic of Kosovo Law on Corporate Income Tax no.05/L-029, insurance companies are required to calculate premium tax of 5% on their quarterly gross premiums.

Premium tax is not deducted from premiums on a policy basis. The premium tax is calculated based on the overall gross written premium volume of the Company. As a result, it is disclosed in these financial statements as an expense.

4.15 Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of property leases. These terms are used to maximize operational flexibility in terms of managing the assets used in the Company's operations. All extension and termination options held are exercisable by both parties, the Company and the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

4. Significant accounting policies (continued)

4.15 Lease liabilities (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral, and conditions. Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of offices and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise leased assets with value of EUR 5 thousand or less.

4.16 Revenue recognition

Premiums. The accounting policy in relation to revenue from insurance contracts is disclosed in note 5 (b).

Investment income. Interest income is recognized in profit or loss as earned, considering the effective yield on the financial asset.

Fee and commission income. Fee and commission income include reinsurance commission, recognized on the settlement with reinsurers. Reinsurance commissions continue to be recognized in full on the settlement with the reinsurer.

4.17 Policy acquisition costs

Acquisition costs are defined as the costs arising on the acquisition of new insurance contracts, including direct costs, such as acquisition commissions and the cost of drawing up the insurance document, and administrative expenses connected with processing of proposals and issuing of policies. Policy acquisition costs are expensed as incurred.

Deferred acquisition costs. Acquisition costs are the costs that an insurer incurs to sell, underwrite, and initiate a new insurance contract. Acquisition costs are capitalized and charged to expense in proportion to premium revenue recognized. To associate acquisition costs with related premium revenue, acquisition costs are allocated by groupings of insurance contracts consistent with the Company's manner of acquiring, servicing, and measuring the profitability of its insurance contracts. Unamortized acquisition costs are classified as an asset.

4.18 Employee benefits

Salaries, contributions to the state or private pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the employees of the Company render the associated services. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory and private defined contribution scheme.