

# FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

IC SCARDIAN J.S.C

31 DECEMBER 2019

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the financial statements of IC SCARDIAN ("the Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit and 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, 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) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kosovo, 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.

### Emphasis Matters

We draw attention to the note 4H and supplementary schedules. The Company was not in compliance with minimum capital requirements as at 31 December 2019, respectively reported deficit in amount of EUR 579 thousand. Our opinion is not modified in respect of this matter.

### Key Audit Matters

Key audit matters are those matters that in our professional judgment were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. Each audit matter and our respective response are described below.

| Key Audit Matter   | How the matter was addressed in our audit  |
|--|--|
| <p><b>Gross Claim Reserves.</b></p> <p>The company gross claim reserves are composed from: Reported but not settled claim (RBNS), Incurred but not reported claims (IBNR) and claim handling cost.</p> <p>The determination of the claim reserves requires the management of Company to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims reported and incurred but not yet reported at the Statement of Financial Position date. The company make use of an actuarial specialists for the estimation of the claim reserves.</p> <p>The calculation of claim reserves is based on the following factors:</p> <ul style="list-style-type: none"> <li>• Previous experience in claims patterns.</li> <li>• Claims settlement patterns</li> <li>• Trends in claims frequency.</li> <li>• Changes in the claims processing cycle; and</li> <li>• Variations in the nature and average cost per claim.</li> </ul> <p>Certain of the above-mentioned factors require judgement and assumptions to be made by the management and therefore we identified the valuation of the claim reserves as a key audit matter.</p> <p>Reference to the financial statements: Note, 2J Insurance contract liabilities 4D Insurance Risk and 17 Gross Claim Reserves.</p> | <p>We involved actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions. Our audit response included the following:</p> <ul style="list-style-type: none"> <li>• Tested the design, implementation and operating effectiveness of key controls related to the process of establishing and adjusting gross claims provisions.</li> <li>• Evaluated the methodology used by the Company for valuation of claim provisions against regulatory and financial reporting requirements.</li> <li>• We reviewed the methodology and assumptions used by the Company to establish its IBNR losses and performed recalculation of Company's IBNR losses for a sample of the most significant lines of business.</li> <li>• We performed additional testing procedures on a sample for reported but not settled losses (RBNS) to assess their adequacy.</li> <li>• We also tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete.</li> <li>• We assessed the adequacy of the disclosures included in notes 4D Insurance Risk and 17 Gross Claim Reserves of the financial statements in accordance with International Financial Reporting Standards and regulatory requirement.</li> </ul> |

## Other Information

Management is responsible for the other information. The other information comprises supplementary schedules that includes the "Solvency Margin", "Capital calculation" and "Adequacy of investments of assets covering technical reserves".

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

#### Report on Other Legal and Regulatory Requirements as required by administrative instruction no 02/2019

The Shareholders meeting of IC Scardian J.S.C has appointed us on 23 July 2019 as auditors of the Company for the year ended 31 December 2019.

We confirm that:

- Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Company.
- We have not provided prohibited non-audit services referred to in Article 5(1) of the administrative instruction no 02/2019 and that we have remained independent of the Company in conducting the audit.

*RSM Kosovo Sh.p.k.*

RSM Kosovo Sh.p.k

Prishtina, Republic of Kosovo

22 May 2020

A handwritten signature in blue ink, appearing to read "Astrit Kelmendi".

Astrit Kelmendi

Engagement Partner



## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

|                                     | Notes | 31 December 2019<br>EUR '000 | 31 December 2018<br>EUR '000 |
|-------------------------------------|-------|------------------------------|------------------------------|
| <b>ASSETS</b>                       |       |                              |                              |
| Cash and cash equivalents           | 6     | 345                          | 1,466                        |
| Term deposits                       | 7     | 9,297                        | 7,651                        |
| Insurance receivables               | 8     | 938                          | 535                          |
| Receivables from related parties    | 9     | 1,315                        | -                            |
| Deferred acquisition costs          | 10    | 720                          | 722                          |
| Property and equipment              | 11    | 493                          | 535                          |
| Right of use assets                 | 12    | 426                          | -                            |
| Investment property                 | 13    | 1,838                        | 1,838                        |
| Intangible assets                   | 14    | 228                          | 231                          |
| Corporate Tax Prepayment            |       | 28                           | -                            |
| Deferred tax assets                 | 24    | 138                          | -                            |
| Other assets                        | 15    | 500                          | 434                          |
| <b>TOTAL ASSETS</b>                 |       | <b>16,266</b>                | <b>13,412</b>                |
| <b>Equity and liabilities</b>       |       |                              |                              |
| <b>Equity</b>                       |       |                              |                              |
| Share capital                       | 16    | 6,838                        | 6,838                        |
| Accumulated losses                  |       | (478)                        | (784)                        |
| <b>TOTAL EQUITY</b>                 |       | <b>6,360</b>                 | <b>6,054</b>                 |
| <b>LIABILITIES</b>                  |       |                              |                              |
| Gross Claim Reserves                | 17    | 4,474                        | 2,958                        |
| Gross Premium Reserves              | 18    | 4,549                        | 4,003                        |
| Insurance and other liabilities     | 19    | 445                          | 397                          |
| Lease liability                     | 12    | 438                          | -                            |
| <b>TOTAL LIABILITIES</b>            |       | <b>9,906</b>                 | <b>7,358</b>                 |
| <b>TOTAL EQUITY AND LIABILITIES</b> |       | <b>16,266</b>                | <b>13,412</b>                |

These financial statements have been approved by the Management of the Company on 18 May 2020 and signed on its behalf by:

  
Artan Lahaj  
Chief Executive Officer

  
Fatos Krasniqi  
Finance Director

## STATEMENT OF PROFIT AND LOSS AND OTHER - COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

|   | Notes    | 2019<br>EUR '000 | 2018<br>EUR '000 |
|---|----------|------------------|------------------|
| Gross written premiums                        | 20       | 10,071           | 8,710            |
| Less: Premium tax                             | 24       | (286)            | (436)            |
| Less: Premium ceded to reinsurers             | 21       | (227)            | (122)            |
| <b>Net written premiums</b>                   |          | <b>9,558</b>     | <b>8,152</b>     |
| Net change in provision for unearned premiums |          | (546)            | (212)            |
| <b>Net earned premiums</b>                    |          | <b>9,012</b>     | <b>7,940</b>     |
| Financial income                              |          | 164              | 147              |
| Other income                                  |          | 44               | 14               |
| <b>Total revenues</b>                         |          | <b>9,220</b>     | <b>8,101</b>     |
| Losses and loss adjustment expenses           | 17       | (4,855)          | (3,399)          |
| Share of expenses to KIB                      | 22       | (197)            | (191)            |
| Contribution to Guarantee Fund                | 22       | (263)            | (196)            |
| Underwriting and policy acquisition costs     |          | (1,092)          | (896)            |
| Depreciation and amortization expenses        | 11,12,14 | (395)            | (217)            |
| Administrative Expenses                       | 23       | (2,222)          | (2,124)          |
| <b>Total expenses</b>                         |          | <b>(9,024)</b>   | <b>(7,023)</b>   |
| <b>PROFIT FROM OPERATIONS</b>                 |          | <b>196</b>       | <b>1,078</b>     |
| Interest Expenses                             | 12       | (28)             | -                |
| <b>PRFIT BEFORE TAX</b>                       |          | <b>168</b>       | <b>1,078</b>     |
| Income tax                                    | 24       | 138              | -                |
| <b>Profit for the year</b>                    |          | <b>306</b>       | <b>1,078</b>     |
| <b>Other comprehensive income</b>             |          |                  |                  |
| Other comprehensive income                    |          | -                | -                |
| <b>TOTAL COMPREHENSIVE INCOME</b>             |          | <b>306</b>       | <b>1,078</b>     |



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

|                                      | Share Capital | Accumulated losses | Total        |
|--------------------------------------|---------------|--------------------|--------------|
|                                      | EUR '000      | EUR '000           | EUR '000     |
| <b>At 1 JANUARY 2019</b>             | <b>6,838</b>  | <b>(784)</b>       | <b>6,054</b> |
| <u>Transaction with owner</u>        |               |                    |              |
| Dividends                            | -             | -                  | -            |
| <b>Total transactions with owner</b> | -             | -                  | -            |
| Profit for the year                  | -             | 306                | 306          |
| Other comprehensive income:          | -             | -                  | -            |
| <b>TOTAL COMPREHENSIVE INCOME</b>    | -             | 306                | 306          |
| <b>At 31 DECEMBER 2019</b>           | <b>6,838</b>  | <b>(478)</b>       | <b>6,360</b> |
| <b>At 01 JANUARY 2018</b>            | <b>6,838</b>  | <b>(1,862)</b>     | <b>4,976</b> |
| <u>Transaction with owner</u>        |               |                    |              |
| <b>Total transactions with owner</b> | -             | -                  | -            |
| Profit for the year                  | -             | 1,078              | 1,078        |
| Other comprehensive income           | -             | -                  | -            |
| <b>TOTAL COMPREHENSIVE INCOME</b>    | -             | 1,078              | 1,078        |
| <b>At 31 DECEMBER 2018</b>           | <b>6,838</b>  | <b>(784)</b>       | <b>6,054</b> |

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

|   | Note     | 2019<br>EUR'000 | 2018<br>EUR'000 |
|---|----------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>                         |          |                 |                 |
| Profit for the year                                 |          | 306             | 1,078           |
| <i>Adjusted for non-cash items:</i>                 |          |                 |                 |
| Depreciation and amortization                       |          | 395             | 217             |
| Interest income                                     |          | (164)           | (147)           |
| Premium Tax expense                                 |          | 286             | 436             |
| Interest expenses                                   |          | 28              |                 |
| Impairment of receivables                           |          | 29              | 12              |
|   |          | 880             | 1,596           |
| <i>Changes in operating assets:</i>                 |          |                 |                 |
| Gross claim reserves                                |          | 1,516           | 764             |
| Premium reserves                                    |          | 546             | 212             |
| Deferred acquisition costs                          |          | 2               | (39)            |
| Insurance premiums receivables                      |          | (432)           | (150)           |
| Receivables from related parties                    |          | (1,315)         |                 |
| Other assets  |          | (66)            | (107)           |
| Insurance and other liabilities                     |          | 49              | -               |
| Premium tax paid                                    |          | (478)           | (423)           |
| <b>Net cash generated from operating activities</b> |          | <b>702</b>      | <b>1,853</b>    |
| <b>INVESTING ACTIVITIES</b>                         |          |                 |                 |
| Purchase of fixed assets, intangible assets         |          | (215)           | (313)           |
| Increase in term deposits                           | 7        | (1,639)         | (600)           |
| Interest received                                   |          | 156             | 105             |
| <b>Net cash used in investing activities</b>        |          | <b>(1,698)</b>  | <b>(808)</b>    |
| <b>FINANCING ACTIVITIES</b>                         |          |                 |                 |
| Lease liabilities                                   |          | (125)           | -               |
| <b>Net cash used in financing activities</b>        |          | <b>(125)</b>    | <b>-</b>        |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>      |          | <b>(1,121)</b>  | <b>1,045</b>    |
| Cash and cash equivalents at the beginning          |          | 1,466           | 421             |
| <b>Cash and cash equivalents at 31 December</b>     | <b>6</b> | <b>345</b>      | <b>1,466</b>    |

## 1. GENERAL

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. 71055124 as a joint stock company. The Company is 100% owned and controlled by Fundway LLC, 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### A. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH IFRS

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2019.

The financial statements have been prepared on an historical cost basis, except for investment properties that have been measured at fair value. The financial statements are presented in euros (€) rounded to the nearest thousand (€000), unless otherwise indicated.

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (no more than 12 months) and more than 12 months after the reporting date (more than 12 months) is presented in the respective note.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3: Significant judgments and key sources of estimation uncertainty.

The financial statements are prepared as of and for the years ended 31 December 2019 and 2018. Current and comparative data stated in these financial statements are expressed in thousands of Euro, unless otherwise stated. Where necessary, comparative figures have been reclassified to conform to changes in presentation for the year.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE (CONTINUED)

### Application of new IFRS requirements

The company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019.

#### IFRS 16 Leases

The standard replaces IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognized in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognized lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

#### New IFRS requirements in issue but not yet effective or adopted by the company

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the reporting period ended 31 December 2019. The company has not yet assessed the impact of these new or amended Accounting Standards and Interpretations

## B. FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). These financial statements are presented in Euros, which is the Company's functional and presentation currency.

## C. 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:

|   | Depreciation rates                         |
|---|--|
| Leasehold improvements                  | Shorter of asset useful life or lease term |
| Computers and related equipment         | 20%  |
| Furniture, fixtures and other equipment | 20%  |
| Vehicles                                | 20%  |



Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

#### **D. 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.

#### **E. INVESTMENT PROPERTY**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise, including the corresponding tax effect. Fair values are evaluated annually by an accredited external, independent appraiser, applying a valuation model recommended by the International Valuation Standards Committee. Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of retirement or disposal. Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### **F. RIGHT OF USE OF ASSETS**

A right-of-use asset is recognized at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Company has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.



**G. IMPAIRMENT OF NON-FINANCIAL ASSETS****Impairment of property, plant and equipment and of intangible assets with finite useful lives**

The carrying amounts of such assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Companies of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Value in use is the present value of the estimated future cash flows of the asset / unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

**H. FINANCIAL INSTRUMENTS*****Initial recognition and measurement***

The Company recognises a financial asset or a financial liability in the consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition, the Company recognises all financial assets and financial liabilities at fair value. The fair value of a financial asset / liability on initial recognition is normally represented by the transaction price. The transaction price for financial assets / liabilities other than those classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition / issue of the financial instrument. Transaction costs incurred on acquisition of a financial asset and issue of a financial liability classified at fair value through profit or loss are expensed immediately.

The Company recognises financial assets using settlement date accounting, thus an asset is recognised on the day it is received by the Company and derecognised on the day that it is delivered by the Company.

**Subsequent measurement of financial assets**

Subsequent measurement of financial assets depends on their classification on initial recognition. The Company classifies financial assets in one of the following two categories:

**(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Insurance receivables, cash and cash equivalents and other assets are also classified in this category.

**(b) Held to maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Company's management has the positive intention and ability to hold to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the



Company will not be able to collect all amounts due according to their original terms. Terms deposits are classified in this category.

***Impairment of financial assets***

At the end of each reporting period, the Company assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (Company of) financial asset(s) have been affected. Objective evidence of impairment could include significant financial difficulty of the counterparty, breach of contract, probability that the borrower will enter bankruptcy, disappearance of an active market for that financial asset because of financial difficulties, etc.

In addition, for insurance receivables that are assessed not to be impaired individually, the Company assesses them collectively for impairment, based on the Company's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for insurance receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly, or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

***Derecognition***

Irrespective of the legal form of the transactions, financial assets are derecognised when they pass the "substance over form" based derecognition test prescribed by IAS 39. That test comprises two different types of evaluations which are applied strictly in sequence:

- Evaluation of the transfer of risks and rewards of ownership
- Evaluation of the transfer of control

Whether the assets are recognised / derecognised in full or recognised to the extent of the Company's continuing involvement depends on accurate analysis which is performed on a specific transaction basis.

***Subsequent measurement of financial liabilities***

Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. The Company classifies financial liabilities in other financial liabilities.

. These liabilities are carried at amortised cost using the effective interest method.

Typically, insurance and other liabilities are classified in this category. Items classified within trade and other payables are not usually remeasured, as the obligation is known with a high degree of certainty and settlement is short-term.

***Derecognition of financial liabilities***

A financial liability is removed from the Company's statement of financial position only when the liability is discharged, cancelled or expired (i.e. extinguished). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.



## I. PRODUCT CLASSIFICATION

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, 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 can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

## J. INSURANCE CONTRACTS LIABILITIES

Non-life insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of financial position date, whether reported or not. The liability is derecognized when the contract expires, is discharged or is cancelled.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognized as premium income.

At each reporting date, a liability adequacy test is performed. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unexpired risk is increased to the extent that future claims in respect of current insurance contracts exceed future premiums plus the current unearned premium provision.

### *Claims arising from general insurance business*

Claims incurred in respect of general business consist of claims paid to policyholders during the financial year together with the changes in the valuation of the liabilities for outstanding claims.

Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and a prudential margin.

Whilst the Management considers that the gross claim reserves and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

The provision represents the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the reporting date. Unpaid losses and loss adjustment expenses consist of estimates for reported losses and provisions for losses not reported. The method used to determine the provisions for claims, is based on the following applicable statutory rules but is also supported by actuarial valuations.

The provision for claims Reported but Not Settled ("RBNS") is set on a case by case basis. The reserve is calculated as the expected amount to settle the claim and estimates are adjusted as new information becomes available.



As at 31 December 2019 the technical reserves for IBNR for MPTL are determined using Bornhuetter–Ferguson method based on incurred claims. (31 December 2018: IBNR are determined as 10% of gross written premium).

The percentage is estimated by the Company's actuary based on external data and actuarial judgement.

#### *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 arising from MTPL, Property, and Personal Accidents lines of business.

Such reinsurance includes treaties and facultative agreements. Only contracts that give rise to a significant transfer of insurance risk and timing risk are accounted for as insurance. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Reinsurance liabilities comprise payable for outwards reinsurance contracts and are recognized as an expense based on the whole amount agreed with the reinsurer.

Benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Anticipated reinsurance recoveries are disclosed separately as assets in the statement of financial position. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of the reinsurance contract.

#### *Deferred Acquisitions Cost*

Acquisition costs are defined as the costs arising on the acquisition of new insurance contracts, including direct costs, such as agent commissions, premium tax and fees paid to Central Bank of Kosovo.

Deferred acquisition costs and deferred origination costs are amortized systematically over the life of the contract and tested for impairment at reporting date. Any amount not recoverable is expensed. They are derecognized when the related contracts are settled or disposed of.

#### *Liability adequacy test*

At each reporting date the Company performs test to ensure the adequacy of claim reserves. 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.

In addition, the Company performs annually a run-off analysis of claim reserves to assess its reserving 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.

#### *Claims handling costs*

Claim handling costs consist of internal and external expenses in relation to valuation, handling and assessment of claims by the Company's personnel as well as external expenses like legal fees and other expenses. Management has estimated claim-handling cost equal to 2% (2018: 2%) of total RBNS and IBNR reserves, excluding Border Claims and Guarantee fund handling costs which are determined by the Kosovo Insurance Bureau.

**K. REVENUE RECOGNITION***Premium Income*

General business written premiums comprise the premiums on contracts incepting in the financial year, irrespective of whether they relate in whole or in part to a later accounting period. Written premiums are disclosed gross of commission payable to intermediaries and exclude taxes based on premiums. The earned portion of premiums received is recognized as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

The provision for unearned premiums 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. However, the all the products in force by the Company have linear risk and no adjustments for variation of risks have been currently made.

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

**L. BENEFIT CLAIMS AND EXPENSES RECOGNITION***Loss and loss adjustment expenses*

Loss and loss adjustment expenses and claims consists of benefits and claims paid to policyholders, as well as changes in the gross valuation of insurance and investment contract liabilities, except for gross changes in the unearned premium provision which are recorded in premium income. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Insurance claims are recorded on the basis of notifications received.

**M. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

**N. TERM DEPOSITS**

Term deposits are stated in the statement of financial position at the amount of principal outstanding and are classified according to their maturities. Term deposits with maturities less than three months are classified as cash equivalents, those with maturities over three months are classified as investments in term deposits. Interest is calculated on an accrual basis.

**O. SHARE CAPITAL**

Share capital represents the nominal value of shares that have been issued. Shares are classified as equity when there is no obligation to transfer cash or other assets.

*Accumulated losses*

Accumulated losses include all prior period losses.

**P. TAXATION**

Premium taxes due are calculated in accordance with legislation in the Republic of Kosovo. Insurance companies pay a tax of 5% on gross premiums. Premiums returned and retrospective premium adjustments are deducted from gross premiums to arrive at the tax base. Tax on gross premiums written is presented separately as a deduction from gross premiums written.



Premium tax constitutes a part of acquisition costs and is deferred in a way consistent with the method of computation of the unearned premiums provision. Insurance companies are not liable to pay corporate income tax on profit in Kosovo. The liability for premium tax ceased to be effective from 5 August 2019.

#### Corporate income tax

Effective from 5 August 2019 in accordance with Law no. 06/L-105 "On Corporate Income Tax", insurance companies are required to pay a corporate income tax at 10 % at their taxable profits. The tax rate on taxable corporate income is fixed at 10%.

Current tax is calculated on the basis of the expected taxable profit for the period starting from the effective date of the legislation up to 31 December 2019. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

The tax expense for the period comprises current and deferred tax if any. Tax is recognized in profit or loss, except if it arises from transactions or events that are recognized in other comprehensive income or directly in equity. In this case, the tax is recognized in other comprehensive income or directly in equity, respectively. Where tax arises from the initial accounting for a business combination, it is included in the accounting for the business combination. Taxes other than income taxes are recorded within operating expenses.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax base used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company has recognized any deferred tax assets as at 31 December 2019

**Q.** Interest income received by the Company is also liable to withholding tax at the rate of 10% (2018: 10%).

#### **R. EMPLOYEE BENEFITS**

##### ***Retirement benefits cost***

The Company makes no provision and has no obligation for employee pensions over and above the contributions paid into the state pension plan, Kosovo Pension Saving Trust (KPST).

#### **S. PROVISIONS**

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.



**T. LEASE LIABILITY**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

**U. EXPENSES RECOGNITION**

Operating expenses are recognized in profit or loss upon recognized of the service or as incurred.

***Operating lease payments***

Payments under operating leases are recognized in the profit or loss on a straight-line basis over the term of the lease.

***Finance cost***

Interest paid is recognized in the profit or loss as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

**V. COMMITMENTS AND CONTINGENCIES**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the statement of financial position date and a reasonable estimate of the amount of the resulting loss can be made.

**W. RELATED PARTY TRANSACTIONS**

Related parties consist of shareholder and directors of the Company, together with entities which they control, who can exert significant influence over the operations and management of the Company. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

**X. EVENTS AFTER THE REPORTING PERIOD**

Events after the reporting period that provide additional information about the Company's position at the Statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.



### 3. SIGNIFICANT JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances. Actual results may differ from those estimated. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

#### *Valuation of insurance contract liabilities*

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the Statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported at the Statement of financial position date (IBNR). The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

#### *Impairment losses on premium receivables*

The Company reviews its insurance and non-insurance receivables to assess impairment on at least an annual basis. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual debtor. This evidence may include observable data indicating that there has been an adverse change in the payment status of the debtor.

#### *Estimation of fair values of Investment Property*

Company's investment properties are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Company works closely with external qualified appraisers who perform the valuation, based on agreed appropriate valuation techniques and inputs to the model (e.g. use of the market comparable approach that reflects recent transaction prices for similar instruments, discounted cash flow analysis etc.). Prices determined then by the appraisers are used by the Company without adjustment. Changes in the fair value of assets and their causes are analysed by the company management. Such valuations require the Company to select among a range of different valuation methodologies and to make estimates about expected future cash flows and discount rates, market prices etc. Information for the valuation of property, plant and equipment is provided in note 5.b.



#### 4. INSURANCE AND FINANCIAL RISK

##### A. Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

The board of directors approves the Company risk management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

##### B. Regulatory framework

The operations of the Company are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy, solvency margin requirements) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

##### C. Reinsurance strategy

The majority of insurance business ceded is placed on an excess of loss basis. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

##### D. Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Company purchases reinsurance as part of its risk's mitigation program. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is excess of loss reinsurance which is taken out to limit the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Company principally issue following types of insurance contracts: motor third party liability insurance, health insurance, property insurance, professional indemnity insurance and other insurance contracts.

For motor third party liability insurance, the most significant risk are material and not material damages caused due to accidents. For property insurance and healthcare insurance most significant risks are: natural disaster, fire, terrorist activities, epidemics, medical science and technology improvements.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The maximum insurance retentions are 10% of the capital.

The table below sets out the concentration of non-life insurance contract liabilities by type of contract:

| 31 December 2019            |                   |                            |                 |
|-----------------------------|-------------------|----------------------------|-----------------|
|                             | Gross Liabilities | Reinsurance of liabilities | Net Liabilities |
| Motor Third party liability | 3,730             | -                          | 3,730           |
| Property insurance          | 118               | -                          | 118             |
| Health insurance            | 147               | -                          | 147             |
| Other Products              | 479               | -                          | 479             |
| <b>TOTAL</b>                | <b>4,474</b>      | <b>-</b>                   | <b>4,474</b>    |

  

| 31 December 2018            |                   |                            |                 |
|-----------------------------|-------------------|----------------------------|-----------------|
|                             | Gross Liabilities | Reinsurance of liabilities | Net Liabilities |
| Motor Third party liability | 2,363             | -                          | 2,363           |
| Property insurance          | 123               | -                          | 123             |
| Health insurance            | 111               | -                          | 111             |
| Other Products              | 361               | -                          | 361             |
| <b>TOTAL</b>                | <b>2,958</b>      | <b>-</b>                   | <b>2,958</b>    |

#### Claims development

The following tables show the estimates of cumulative incurred claims, only claims notified for each successive accident year at each reporting date, together with cumulative payments to date.

|   | 2015    | 2016    | 2017    | 2018    | 2019  | Total        |
|---|---------|---------|---------|---------|-------|--------------|
| Estimate of cumulative claims                               |         |         |         |         |       |              |
| - At end of underwriting year                               | 348     | 312     | 280     | 284     |       | -            |
| - One year later  | 1,895   | 1,608   | 1,641   | 1,698   |       | -            |
| - Two years later   | 2,673   | 2,245   | 2,258   | -       |       | -            |
| - Three years   | 3,886   | 3,383   | -       | -       |       | -            |
| Estimate of cumulative claims                               | 4,493   | 3,383   | 2,257   | 1,698   | 289   | 12,120       |
| Cumulative payments   | (2,599) | (3,006) | (2,213) | (1,678) | (287) | (9,783)      |
| <b>Amount of claim outstanding</b>                          |         |         |         |         |       | <b>2,337</b> |
| <b>Kosovo Insurance Bureau part</b>                         | -       |         | -       | -       | -     | <b>530</b>   |
| <b>Amount recognized at statement of financial position</b> | -       |         | -       | -       | -     | <b>2,867</b> |



#### E. Credit risk

The Company has no significant concentration of credit risk. The Company has policies that limit the amount of credit exposure to any single counter party. The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of financial position.

|   | 31 December 2019 | 31 December 2018 |
|---|------------------|------------------|
| Cash and cash equivalents               | 345              | 1,466            |
| Term deposits                           | 9,297            | 7,651            |
| Insurance receivables                   | 938              | 535              |
| Receivables from related parties        | 1,315            | -                |
| Other Assets                            | 500              | 434              |
| <b>MAXIMUM EXPOSURES TO CREDIT RISK</b> | <b>12,395</b>    | <b>10,086</b>    |

**Terms Deposits and Cash and cash equivalents.** All term deposits and cash held in current account are with Republic of Kosovo licensed banks. However, exposure to single bank should not exceed 30% of terms deposits according to Company policy and CBK regulations.

#### Receivables from related parties

The company has a credit risk exposure with a related party, which as at 31 December 2019 owed the company EUR 1,315 thousand. This balance was within its terms of trade and no impairment was made as at 31 December 2019. There are no guarantees against this receivable, but management closely monitors the receivable balance on a monthly basis.

#### Other Asset

Credit risk related to other assets is mainly related to advances to Kosovo Insurance Bureau.

**Insurance receivable.** The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

The age structure of insurance receivables as of 31 December 2019 and 2018 is as follows:

|                                   | 31 December 2019 | 31 December 2018 |
|-----------------------------------|------------------|------------------|
| Up to 30 days                     | 532              | 257              |
| From 1 to 3 months                | 139              | 98               |
| From 3 to 6 months                | 120              | 73               |
| From 6 to 12 months               | 94               | 74               |
| Over 1 year                       | 112              | 63               |
| <b>Total</b>                      | <b>997</b>       | <b>565</b>       |
| Less: impairment provision        | (59)             | (30)             |
| <b>INSURANCE RECEIVABLES, NET</b> | <b>938</b>       | <b>535</b>       |

|                                   | 31 December 2019 | 31 December 2018 |
|-----------------------------------|------------------|------------------|
| Neither Past due nor impaired     | 532              | 257              |
| Past due but no impaired          | 465              | 308              |
| Impaired                          | -                | -                |
| Less: impairment provision        | (59)             | (30)             |
| <b>INSURANCE RECEIVABLES, NET</b> | <b>938</b>       | <b>535</b>       |

Movements in the provision for impairment of premium receivables that are assessed for impairment collectively are as follows:

|   | 2019      | 2018      |
|---|-----------|-----------|
| At 1 January  | 30        | 18        |
| Provision for impairment recognized during the year | 29        | 12        |
| Write off (Recoveries)                              | -         | -         |
| <b>At 31 December</b>                               | <b>59</b> | <b>30</b> |

#### F. Market Risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

#### Interest Rate Risk

The Company's exposure to interest risk relates to deposits placed in local commercial banks. Deposits are with the reputable banks. Outstanding claims and provision for unearned premiums are not directly sensitive to market interest rates because are not discounted and non-interest bearing.

| 31 December 2019                 | Up to six months | 6 months to one year | Over one Year | Non-interest bearing | Total         |
|----------------------------------|------------------|----------------------|---------------|----------------------|---------------|
| Cash and cash equivalents        | -                | -                    | -             | 345                  | 345           |
| Term deposits                    | -                | 1,300                | 7,677         | 320                  | 9,297         |
| Insurance receivables            | -                | -                    | -             | 938                  | 938           |
| Receivables from related parties | -                | -                    | 1,315         | -                    | 1,315         |
| Other Assets                     | -                | -                    | -             | 500                  | 500           |
| <b>Total</b>                     | <b>-</b>         | <b>1,300</b>         | <b>8,992</b>  | <b>2,103</b>         | <b>12,395</b> |
| Gross claim reserve              | -                | -                    | -             | 4,474                | 4,474         |
| Lease Liability                  | 65               | 64                   | 309           | -                    | 438           |
| Insurance and other liabilities  | -                | -                    | -             | 216                  | 216           |
| <b>Total</b>                     | <b>65</b>        | <b>64</b>            | <b>309</b>    | <b>4,690</b>         | <b>5,128</b>  |

| 31 December 2018                | Up to six months | 6 months to one year | Over one Year | Non-interest bearing | Total         |
|---------------------------------|------------------|----------------------|---------------|----------------------|---------------|
| Cash and cash equivalents       | -                | -                    | -             | 1,466                | 1,466         |
| Term deposits                   | -                | 2,463                | 4,868         | 320                  | 7,651         |
| Insurance receivables           | -                | -                    | -             | 535                  | 535           |
| Other Assets                    | -                | -                    | -             | 434                  | 434           |
| <b>Total</b>                    | <b>-</b>         | <b>2,463</b>         | <b>4,868</b>  | <b>2,755</b>         | <b>10,086</b> |
| Gross claim reserve             | -                | -                    | -             | 2,958                | 2,958         |
| Insurance and other Liabilities | -                | -                    | -             | 120                  | 120           |
| <b>Total</b>                    | <b>-</b>         | <b>-</b>             | <b>-</b>      | <b>3,078</b>         | <b>3,078</b>  |

#### Foreign currency risk

The Company is not exposed to foreign currency risk since all of its transactions are performed in local currency.



### G. Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, then, availability of funds through adequate credit facilities and ability to collect timely, within the terms established the amounts due from the deposits.

| 31 December 2019                 | Up to six months | 6 months to one year | Over one Year | Total         |
|----------------------------------|------------------|----------------------|---------------|---------------|
| Cash and cash equivalents        | 345              | -                    | -             | 345           |
| Term deposits                    | -                | 1,300                | 7,997         | 9,297         |
| Insurance receivables            | 938              | -                    | -             | 938           |
| Receivables from related parties | -                | -                    | 1,315         | 1,315         |
| Other Assets                     | 500              | -                    | -             | 500           |
| <b>Total</b>                     | <b>1,783</b>     | <b>1,300</b>         | <b>9,312</b>  | <b>12,395</b> |
| Gross claim reserves             | 4,474            | -                    | -             | 4,474         |
| Lease Liabilities                | 65               | 64                   | 309           | 438           |
| Insurance and other liabilities  | 216              | -                    | -             | 216           |
| <b>Total</b>                     | <b>4,755</b>     | <b>64</b>            | <b>309</b>    | <b>5,128</b>  |

  

| 31 December 2018                | Up to six months | 6 months to one year | Over one Year | Total         |
|---------------------------------|------------------|----------------------|---------------|---------------|
| Cash and cash equivalents       | 1,466            | -                    | -             | 1,466         |
| Term deposits                   | -                | 2,463                | 5,188         | 7,651         |
| Insurance receivables           | 535              | -                    | -             | 535           |
| Other Assets                    | 434              | -                    | -             | 434           |
| <b>Total</b>                    | <b>2,435</b>     | <b>2,463</b>         | <b>5,188</b>  | <b>10,086</b> |
| Gross claim reserve             | 2,958            | -                    | -             | 2,958         |
| Insurance and other liabilities | 120              | -                    | -             | 120           |
| <b>Total</b>                    | <b>3,078</b>     | <b>-</b>             | <b>-</b>      | <b>3,078</b>  |

### H. Capital risk management

The Company's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

The Company is subject to minimum capital requirements. The capital requirements are monitored from Central Bank of Republic of Kosovo (CBK). As at 31 December 2019 the Company was not in Compliance with capital requirements.

|   | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|---|-----------------------------|-----------------------------|
| Available Capital according to CBK Regulation | 2,621                       | 4,487                       |
| Minimum required capital                      | 3,200                       | 3,200                       |
| <b>(Deficit)/Surplus</b>                      | <b>(579)</b>                | <b>1,287</b>                |

## 5. FAIR VALUE ESTIMATION

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values have been based on management assumptions according to the profile of the asset and liability base.

### A. Financial and insurance instruments measured at fair value

The financial assets measured according to the fair value in the statement of financial position are presented in accordance with the hierarchy of the fair value. This hierarchy Company's financial assets and liabilities into three levels that are based on the significance of the incoming data used during the measurement of the fair value of the financial assets:

- **Level 1:** quoted prices (not adjusted) on the active markets for identical assets or liabilities;
- **Level 2:** other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e. as prices), or indirectly (i.e. made of prices) and
- **Level 3:** incoming data on the asset or liability that are not based on data available for market observing.

As of the reporting dates, the Company does not have financial instruments measured at fair value.

### Financial assets not measured at fair value

The difference between carrying value and fair value of those financial assets and liabilities which are not presented in the Statement of financial position at their fair value are as follows:

|                                  | 31 December 2019 |               | 31 December 2018 |               |
|----------------------------------|------------------|---------------|------------------|---------------|
|                                  | Carrying amount  | Fair value    | Carrying amount  | Fair value    |
| Cash and cash equivalents        | 345              | 345           | 1,466            | 1,466         |
| Term deposits                    | 9,297            | 9,297         | 7,651            | 7,651         |
| Insurance receivables            | 938              | 938           | 535              | 535           |
| Receivables from related parties | 1,315            | 1,315         | -                | -             |
| Other Assets                     | 500              | 500           | 434              | 434           |
| <b>Total</b>                     | <b>12,395</b>    | <b>12,395</b> | <b>10,086</b>    | <b>10,086</b> |
| Gross claim reserves             | 4,474            | 4,474         | 2,958            | 2,958         |
| Lease Liabilities                | 438              | 438           | -                | -             |
| Insurance and other payables     | 216              | 216           | 120              | 120           |
| <b>Total</b>                     | <b>5,128</b>     | <b>5,128</b>  | <b>3,078</b>     | <b>3,078</b>  |

The management assessed that cash and term deposits, insurance receivables, other payable and claim provisions approximate their carrying amounts largely due to the short-term maturities of these instruments.

### B. Fair value measurement of non-financial assets

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognized and measured at fair value in the financial statements. The Company classified land in the level 2.

| 31 December 2019                  | Level 1  | Level 2      | Level 3  | Total        |
|-----------------------------------|----------|--------------|----------|--------------|
| Land                              | -        | 1,838        | -        | 1,838        |
| <b>TOTAL NON-FINANCIAL ASSETS</b> | <b>-</b> | <b>1,838</b> | <b>-</b> | <b>1,838</b> |
| 31 December 2018                  | Level 1  | Level 2      | Level 3  | Total        |
| Land                              | -        | 1,838        | -        | 1,838        |
| <b>TOTAL NON-FINANCIAL ASSETS</b> | <b>-</b> | <b>1,838</b> | <b>-</b> | <b>1,838</b> |



**Valuation techniques used to determine level 2 and level 3 fair values**

The company obtains independent valuations for its investment properties at least annually and for its freehold land.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- discounted cash flow projections based on reliable estimates of future cash flows
- capitalized income projections based upon a property's estimated net market income, and a capitalization rate derived from an analysis of market evidence.

The level 2 fair value of land has been derived using the sales comparison approach. The key inputs under this approach are the price per square meter from current year sales of comparable lots of land in the area (location and size).

The calculation of fair value of land is done using price per square meter of the land in the same area:

|                        |                           |                   | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|------------------------|---------------------------|-------------------|-----------------------------|-----------------------------|
| Total square<br>meters | Price per Square<br>meter | Location          |                             |                             |
| 11,486                 | EUR 0.16                  | Hajvali, Pristina | 1,838                       | 1,838                       |
|                        |                           |                   | <b>1,838</b>                | <b>1,838</b>                |

## 6 CASH AND CASH EQUIVALENTS

|  | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|--|-----------------------------|-----------------------------|
| Current accounts with local banks      | 345                         | 1,466                       |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b> | <b>345</b>                  | <b>1,466</b>                |

Cash and cash equivalent represent cash held in bank current accounts.

## 7 TERM DEPOSITS

|   | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|---|-----------------------------|-----------------------------|
| Term Deposits with local commercial banks | 8,977                       | 7,331                       |
| Central Bank of Kosovo                    | 320                         | 320                         |
| <b>TOTAL TERM DEPOSITS</b>                | <b>9,297</b>                | <b>7,651</b>                |

| Maturity of deposits       | 2019<br>EUR'000 | 2018<br>EUR'000 |
|----------------------------|-----------------|-----------------|
| Due within one year        | 1,300           | 2,463           |
| Due after one year         | 7,997           | 5,188           |
| <b>TOTAL TERM DEPOSITS</b> | <b>9,297</b>    | <b>7,651</b>    |

Term deposits carry interest rate in the range from 1.3% to 2.70% per annum. (2018: 1.3% to 2.70%). Included in term deposits is amount of EUR 1,050 thousand restricted term deposit, which is pledged as collateral to secure loan received from parent of the Company.

## 8 INSURANCE RECEIVABLES

|   | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|---|-----------------------------|-----------------------------|
| Receivables for compulsory products     | 169                         | 117                         |
| Receivables for voluntary products      | 813                         | 439                         |
| Receivable from Kosovo Insurance Bureau | 15                          | 9                           |
|   | 997                         | 565                         |
| Less: Impairment provision              | (59)                        | (30)                        |
| <b>INSURANCE RECEIVABLES, NET</b>       | <b>938</b>                  | <b>535</b>                  |

Insurance receivable are amount due from customers for insurance premium for insurance contracts sold during the ordinary course of business. Collection of amounts is expected in one year or less. For insurance receivable aging and movement in impairment provision refer to note 4 E.

## 9 RECEIVABLES FROM RELATED PARTIES

|   | 2019<br>EUR'000 | 2018<br>EUR'000 |
|---|-----------------|-----------------|
| Asomeo Environmental Restoration Industry LLC | 1,315           | -               |
| <b>TOTAL</b>                                  | <b>1,315</b>    | <b>-</b>        |



The Company provided an unsecured loan in amount of EUR 1,315 to related party company. The agreement date was on 11 March 2019 and the borrower shall repay the loan not later than 31 December 2021. The loan carries interest rate at 4.5%.

## 10 DEFERRED ACQUISITION COSTS

The Company classifies the following expenses as deferred acquisition costs

|  | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|--|-----------------------------|-----------------------------|
| Agents salary and related costs        | 534                         | 477                         |
| Provision to CBK                       | 61                          | 52                          |
| Premium tax 5%                         | 125                         | 193                         |
| <b>TOTAL DEFERRED ACQUISITION COST</b> | <b>720</b>                  | <b>722</b>                  |

## 11 PROPERTY AND EQUIPMENT

|                            | Equipment<br>EUR'000 | Furniture<br>EUR'000 | Vehicles<br>EUR'000 | Leasehold<br>Improvements<br>EUR'000 | Total<br>EUR'000 |
|----------------------------|----------------------|----------------------|---------------------|--------------------------------------|------------------|
| At 1 January 2018          |                      |                      |                     |                                      |                  |
| Cost                       | 152                  | 149                  | 171                 | 346                                  | 818              |
| Additions                  | 20                   | 50                   | 59                  | 65                                   | 194              |
| <b>At 31 December 2018</b> | <b>172</b>           | <b>199</b>           | <b>230</b>          | <b>411</b>                           | <b>1,012</b>     |
| Additions                  | 13                   | 7                    | 25                  | 100                                  | 145              |
| <b>At 31 December 2019</b> | <b>185</b>           | <b>207</b>           | <b>255</b>          | <b>510</b>                           | <b>1,157</b>     |
| Accumulated Depreciation   |                      |                      |                     |                                      |                  |
| At 1 January 2018          | (73)                 | (69)                 | (68)                | (108)                                | (318)            |
| Charge for the year        | (33)                 | (33)                 | (41)                | (52)                                 | (160)            |
| <b>At 31 December 2018</b> | <b>(106)</b>         | <b>(102)</b>         | <b>(109)</b>        | <b>(160)</b>                         | <b>(478)</b>     |
| Charge for the year 2019   | (36)                 | (39)                 | (46)                | (65)                                 | (186)            |
| <b>At 31 December 2019</b> | <b>(141)</b>         | <b>(142)</b>         | <b>(155)</b>        | <b>(225)</b>                         | <b>(664)</b>     |
| Net book value at:         |                      |                      |                     |                                      |                  |
| <b>31 December 2018</b>    | <b>67</b>            | <b>97</b>            | <b>121</b>          | <b>251</b>                           | <b>535</b>       |
| <b>31 December 2019</b>    | <b>43</b>            | <b>65</b>            | <b>100</b>          | <b>286</b>                           | <b>493</b>       |

As of 31 December 2019, and 2018, the Company has no equipment pledged as collateral. All assets are used for Company's operating activities.

## 12 LEASES

12(a) Amounts recognised in statement of financial position:

Right of use of assets:

|                                     | 31 December 2019<br>EUR'000 | 1 January 2019<br>EUR'000 |
|-------------------------------------|-----------------------------|---------------------------|
| Offices                             | 426                         | 562                       |
| <b>TOTAL RIGHT OF USE OF ASSETS</b> | <b>426</b>                  | <b>562</b>                |

12 (b) Lease liabilities:

|                              | 31 December 2019<br>EUR'000 | 1 January 2019<br>EUR'000 |
|------------------------------|-----------------------------|---------------------------|
| Current                      | 129                         | 124                       |
| Non-Current                  | 309                         | 438                       |
| <b>TOTAL LEASE LIABILITY</b> | <b>438</b>                  | <b>562</b>                |

12 (c) Amounts recognised in the statement of profit and loss:

|                  | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|------------------|-----------------------------|-----------------------------|
| Depreciation     | 136                         | -                           |
| Interest expense | 28                          | -                           |
| <b>TOTAL</b>     | <b>164</b>                  | <b>-</b>                    |

The Company leases its offices and branches. Rental contracts are typically made for fixed of 1 to 8 years.

The company has used a 5.74% discount rate and applied to all lease contracts. The present value of lease payments is presented in the table below;

| 31 December 2019          | Up to 1 year<br>EUR '000 | 1 to 2 years<br>EUR '000 | 2 to 3 years<br>EUR '000 | Over 5 years<br>EUR '000 | Total<br>EUR '000 |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------|
| Lease payments            | 150                      | 116                      | 91                       | 132                      | 489               |
| Finance charges           | (21)                     | (15)                     | (9)                      | (6)                      | (51)              |
| <b>Net present values</b> | <b>129</b>               | <b>101</b>               | <b>82</b>                | <b>126</b>               | <b>438</b>        |

## 13 INVESTMENT PROPERTY

|                                  | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|----------------------------------|-----------------------------|-----------------------------|
| Land                             | 1,838                       | 1,838                       |
| <b>TOTAL INVESTMENT PROPERTY</b> | <b>1,838</b>                | <b>1,838</b>                |



Investment properties include land which is held for capital appreciation and is carried at fair value. Refer to note 5B for valuation of investment properties. There was no significant change in fair value of the investment properties during the year ended 31 December 2019.

#### 14 INTANGIBLE ASSETS

|                            | Software<br>EUR'000 |
|----------------------------|---------------------|
| Cost                       |                     |
| At 1 January 2018          | 216                 |
| Additions                  | 120                 |
| <b>At 31 December 2018</b> | <b>336</b>          |
| Additions                  | 70                  |
| <b>At 31 December 2019</b> | <b>406</b>          |
| Accumulated Amortization   |                     |
| At 1 January 2018          | (47)                |
| Charge for the year        | (58)                |
| <b>At 31 December 2018</b> | <b>(105)</b>        |
| Charge for the year        | (73)                |
| <b>At 31 December 2019</b> | <b>(178)</b>        |
| Net book value             |                     |
| <b>31 December 2018</b>    | <b>231</b>          |
| <b>31 December 2019</b>    | <b>228</b>          |

## 15 OTHER ASSETS

|                                      | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|--------------------------------------|-----------------------------|-----------------------------|
| Prepaid rent                         | 4                           | 6                           |
| Prepayments to suppliers             | 40                          | 73                          |
| Advances to employees                | 6                           | 1                           |
| Reinsurance part of unearned premium | -                           | 2                           |
| KIB Receivable                       | 322                         | 225                         |
| KIB VAT Advances                     | 3                           | 2                           |
| Advances paid based on MoU           | 125                         | 125                         |
| <b>TOTAL OTHER ASSETS</b>            | <b>500</b>                  | <b>434</b>                  |

Advances paid based on memorandum of understanding represents the cash deposited (in form of Guarantee) by each insurance company in Raiffeisen Bank Kosovo. The amount of EUR 1,500 thousand was divided between 12 insurance companies, EUR 125 thousand each of them. The cash amount deposited is a result of the "Memorandum of Understanding" between the Association of Serbian Insurers and the Kosovo Insurance Bureau as authorized entities responsible for vehicle insurance issues in the jurisdiction of each Party with facilitation of the Council of Bureau and on the Mutual Recognition of Motor Third Party Liability Insurance (MTPL) and arrangements for the processing and payment of claims.

KIB Receivables relate to advances paid for compensation fund.

## 16 SHARE CAPITAL

As at 31 December 2019 and 2018 the Company is 100% owned by Fundway LLC. The share capital is composed from:

|  | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|--|-----------------------------|-----------------------------|
| Paid share capital in cash                                 | 5,000                       | 5,000                       |
| Contribution in kind -Land (Note 11 Investment Properties) | 1,838                       | 1,838                       |
| <b>TOTAL SHARE CAPITAL</b>                                 | <b>6,838</b>                | <b>6,838</b>                |



## 17 GROSS CLAIM RESERVES

|   | 2019<br>EUR'000 | 2018<br>EUR'000 |
|---|-----------------|-----------------|
| Reported but not settled claims (RBNS)  | 2,867           | 1,918           |
| Incurred but not yet reported claims (IBNR)   | 1,500           | 982             |
| Claim handling costs  | 99              | 58              |
| Guarantee Fund  | 8               | -               |
| <b>TOTAL GROSS CLAIM RESERVES AT 31 DECEMBER</b>                                    | <b>4,474</b>    | <b>2,958</b>    |
| <hr/>   |                 |                 |
|   | 2019<br>EUR'000 | 2018<br>EUR'000 |
| As at 1 January   | 2,958           | 2,194           |
| Losses and loss adjustment expenses incurred  | 4,855           | 3,399           |
| Losses and loss adjustment expenses paid  | (3,339)         | (2,635)         |
| Net insurance liabilities for losses and loss adjustment expenses as at 31 December | 4,474           | 2,958           |
| <b>GROSS CLAIM RESERVES</b>   | <b>4,474</b>    | <b>2,958</b>    |

Included in gross claim reserves are reserves for border insurance and Compensation fund in amount of EUR 530 thousand as at 31 December 2019 (31 December 2018: EUR 395 thousand)

## 18 GROSS PREMIUM RESERVES

Gross Premium reserves are composed from unearned premiums and unexpired risks reserves. In the table below UPR and URR based on business lines is presented:

31 December 2019

|                           | UPR          | URR       | Premium reserves | Reinsurer UPR | Net UPR      |
|---------------------------|--------------|-----------|------------------|---------------|--------------|
| Motonic                   | 2,755        | -         | 2,755            | -             | 2,755        |
| Travel Health Insurance   | 436          | -         | 436              | -             | 436          |
| Fire & Property Insurance | 170          | -         | 170              | -             | 170          |
| Border premiums – KIB     | 60           | 12        | 72               | -             | 72           |
| Other products            | 1,036        | 80        | 1,116            | -             | 1,116        |
| <b>Total</b>              | <b>4,457</b> | <b>92</b> | <b>4,549</b>     | <b>-</b>      | <b>4,549</b> |

31 December 2018

|                           | UPR          | URR        | Premium reserves | Reinsurer UPR | Net UPR      |
|---------------------------|--------------|------------|------------------|---------------|--------------|
| Motonic                   | 2,691        | -          | 2,691            | -             | 2,691        |
| Travel Health Insurance   | 346          | -          | 346              | -             | 346          |
| Fire & Property Insurance | 111          | -          | 111              | -             | 111          |
| Border premiums – KIB     | 55           | 43         | 98               | -             | 98           |
| Other products            | 696          | 61         | 757              | (2)           | 755          |
| <b>Total</b>              | <b>3,899</b> | <b>104</b> | <b>4,003</b>     | <b>(2)</b>    | <b>4,001</b> |

## 19 INSURANCE AND OTHER LIABILITIES

|  | 31 December 2019<br>EUR'000 | 31 December 2018<br>EUR'000 |
|--|-----------------------------|-----------------------------|
| Trade payables                               | 172                         | 88                          |
| Agents commission payables                   | 43                          | 31                          |
| VAT payable                                  | 146                         | 98                          |
| Premium tax payable                          | -                           | 113                         |
| Social and health contributions              | 17                          | 16                          |
| Withholding tax on salary                    | 14                          | 13                          |
| Payables to employees                        | 53                          | 38                          |
| <b>TOTAL INSURANCE AND OTHER LIABILITIES</b> | <b>445</b>                  | <b>397</b>                  |

## 20 GROSS WRITTEN PREMIUMS

|                                    | 2019<br>EUR'000 | 2018<br>EUR'000 |
|------------------------------------|-----------------|-----------------|
| Motoric                            | 5,931           | 5,822           |
| Travel Health Insurance            | 2,455           | 1,504           |
| Fire & Property Insurance          | 300             | 208             |
| Border premiums KIB                | 853             | 842             |
| Other products                     | 532             | 334             |
| <b>TOTAL GROSS WRITTEN PREMIUM</b> | <b>10,071</b>   | <b>8,710</b>    |

## 21 PREMIUM CEDED TO REINSURERS

|   | 2019<br>EUR'000 | 2018<br>EUR'000 |
|---|-----------------|-----------------|
| TPL                                       | 56              | 46              |
| Fire & Special Perils Insurance           | 77              | 72              |
| Professional Liability Insurance          | 94              | 4               |
| <b>TOTAL PREMIUM CEDED TO REINSURANCE</b> | <b>227</b>      | <b>122</b>      |



**22 SHARE OF EXPENSES TO KOSOVO INSURANCE BUREAU**

The Kosovo Insurance Bureau ("KIB") administers the system to sell compulsory third party liability motor vehicle insurance ("CTPL") at the border of the Territory of Kosovo (the "pool") to drivers of foreign registered vehicles not in possession of such insurance, on behalf of all insurance companies licensed in republic of Kosovo. KIB remits to each insurance company monthly its share of the gross premiums received and their share of claim and administrative expenses. In addition, each insurance company is required to contribute to KIB for the Compensation Fund Kosovo ("CFK"). The role of CFK is to pay insurance claims related to accidents caused by uninsured vehicles, unknown vehicles or other specified events.

|                                   | 2019         | 2018         |
|-----------------------------------|--------------|--------------|
|                                   | EUR'000      | EUR'000      |
| Share of expenses to KIB          | (197)        | (191)        |
| Contribution to compensation fund | (263)        | (196)        |
| <b>Total</b>                      | <b>(460)</b> | <b>(387)</b> |

**23 ADMINISTRATIVE EXPENSES**

|                                      | 2019         | 2018         |
|--------------------------------------|--------------|--------------|
|                                      | EUR'000      | EUR'000      |
| Salaries                             | 1,328        | 1,086        |
| Rent expenses                        | 143          | 302          |
| Marketing expenses                   | 65           | 102          |
| CBK charges                          | 139          | 118          |
| Other expenses                       | 131          | 110          |
| Utilities                            | 94           | 93           |
| IT Expenses                          | 24           | 24           |
| Office expenses                      | 64           | 66           |
| Printing Expenses                    | 32           | 35           |
| Social contribution expenses         | 65           | 54           |
| Professional services                | 14           | 46           |
| Repairs and Maintenance              | 45           | 40           |
| Bad Debt Provision                   | 29           | 12           |
| License expenses                     | 7            | 13           |
| Representation expenses              | 18           | 8            |
| Official travel expenses             | 24           | 15           |
| <b>TOTAL ADMINISTRATIVE EXPENSES</b> | <b>2,222</b> | <b>2,124</b> |

**24 PREMIUM AND INCOME TAX**

|                                     | 2019       | 2018       |
|-------------------------------------|------------|------------|
|                                     | EUR'000    | EUR'000    |
| Premium Tax                         | 286        | 436        |
| Income tax                          | (138)      | -          |
| <b>TOTAL PREMIUM AND INCOME TAX</b> | <b>148</b> | <b>436</b> |

**Premium tax.** The premium tax was paid in accordance with Law no. 05/L-029 "On Corporate Income Tax" which was effective from 1 September 2015 up to 5 August 2019. In accordance with the law the insurance companies were required to pay a premium tax of 5% on their quarterly gross premiums. Premiums returned and retrospective premium adjustments are deducted from gross premiums to arrive at the tax base. Based on this law the Insurance

companies were not liable to tax on profit in Kosovo for the years up to 31 December 2018 and the period from 1 January 2019 up to 5 August 2019.

**Income tax.** Insurance Companies are liable to tax on profit with the new Law no. 06/L-105 "On Corporate Income Tax" which is effective from 5 August 2019. In accordance with the Law insurance companies are required to pay the corporate income tax at 10 % at their taxable profits. The tax rate on taxable corporate income is fixed at 10%. According to Tax Authority interpretation specifically for insurance industry, starting from 5 August 2019 insurance companies for tax purposes should calculate separately Gross Written Premiums, unearned premium reserves, Paid Claims only for the period 5 August 2019 until 31 December 2019. The tax loss for the period is mainly due to large unearned premium reserve recognized for tax purposes. . In the table below the reconciliation of loss before tax is presented:

|  | 2019<br>EUR'000 |
|--|-----------------|
| Loss for period from 5 August till 31 December 2019                                    | (2,321)         |
| Tax rate at 10%  | (232)           |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income |                 |
| Change in technical reserves   | 86              |
| Other nondeductible expenses   | 8               |
| Income tax credit  | 138             |
| <b>Deferred tax asset recognised</b>   | <b>138</b>      |

## 25 COMMITMENTS AND CONTINGENCY

The company leases offices under non-cancellable operating leases. From 1 January 2019, the group has recognised right-of-use assets for these leases, except for short term and low-value assets

|                          | 2019<br>EUR'000 | 2018<br>EUR'000 |
|--------------------------|-----------------|-----------------|
| Within one year          | -               | 273             |
| Within two to nine years | -               | 686             |
| <b>Total</b>             | <b>-</b>        | <b>959</b>      |



### **Litigation**

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements

As at 31 December 2019 there are 109 legal cases, with reserve in the amount of EUR 437 thousand (31 December 2018: 140 legal cases with reserve EUR 430 thousand).

The Company's Management regularly analyses potential risks resulting from losses regarding legal proceedings, along with proceedings and possible receivables aimed against the Company, which may arise in the future. Although the outcome of these matters cannot always be ascertained with precision, the management of the Company believes that no material liabilities above the provisions reserved is likely to occur.

### **Tax liabilities**

The Company's financial statements for the years ended 31 December 2014 to 2019 are subject to inspection by local tax authorities. The Company has followed all tax rules and regulations in calculating tax liabilities, however tax interpretations as per tax authorities may differ from those used by the Company.

## **26 RELATED PARTY TRANSACTIONS**

A party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with the entity, the party has an interest in the entity that gives it significant influence over the entity, the party has joint control over the entity, the party is an associate or the party is a member of the key management personnel of the entity or its parent.

The Company has related party transactions during the normal course of business activities. The table below presents the volume and balances from the related party transactions as of and for the years ended 31 December 2019 and 2018.

|   | 2019<br>EUR'000 | 2018<br>EUR'000 |
|---|-----------------|-----------------|
| Remuneration for key-management               | 592             | 241             |
| <i>Guarantee to parent company</i>            |                 |                 |
| FUNDWAY LLC                                   | 1,050           | -               |
| <i>Loans to other related entities</i>        |                 |                 |
| Asomeo Environmental Restoration Industry LLC | 1,315           | -               |
| <b>Total</b>                                  | <b>2,957</b>    | <b>241</b>      |

## **27 EVENTS AFTER THE REPORTING DATE**

The COVID-19 outbreak in the Republic of Kosovo has caused business disruptions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Company expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time

There are no other significant events after the statement of financial position date that may require adjustment or disclosure in the financial statements.

**1 TABLE 1 -SOLVENCY MARGIN**

| Table for Solvency Calculation |   | 2018         | 2019         |
|--------------------------------|---|--------------|--------------|
|                                |   | EUR'000      | EUR'000      |
| <b>1</b>                       | <b>Table of reserves for claims</b>                                   |              |              |
| 1.1                            | Requirements for outstanding claims at the beginning of the period    | 2,194        | 2,958        |
| 1.2                            | Paid claims   | 2,635        | 3,299        |
| 1.3                            | Requirements for outstanding claims at the end of the period          | 2,958        | 4,475        |
| <b>1.4</b>                     | <b>Incurred losses (1.2 + 1.3) - 1.1</b>                              | <b>3,399</b> | <b>4,816</b> |
| <b>1.5</b>                     | <b>Average of incurred losses</b>                                     | <b>2,717</b> | <b>3,507</b> |
| <b>2</b>                       | <b>Table of part of reinsurer requirements</b>                        | -            | -            |
| 2.1                            | Part of reinsurance for pending claims at the beginning of the period | -            | -            |
| 2.2                            | Accepted reinsurance  | -            | -            |
| 2.3                            | Part of reinsurance for pending claims at the end of the period       | -            | -            |
| <b>2.4</b>                     | <b>Part of reinsurance for incurred claims</b>                        | -            | -            |
| 2.5                            | Net incurred losses (held claims)                                     | <b>3,399</b> | <b>4,816</b> |
| 2.6                            | Holding level   | 100%         | 100%         |
| 2.7                            | Average of holding level  | 100%         | 100%         |
| <b>3</b>                       | <b>Based on premiums</b>  | <b>2018</b>  | <b>2019</b>  |
| 3.1                            | Gross written premiums  | 8,710        | 10,071       |
| 3.2                            | Change of premiums  | (212)        | (547)        |
| 3.3                            | For Q1: 11,12,13 increase of premium for 50%                          |              |              |
| 3.4                            | Others (tax & reinsurance)  |              |              |
| <b>3.5</b>                     | <b>Total</b>  | <b>8,498</b> | <b>9,524</b> |
| 3.6                            | First layer (fixed to 10 million)                                     | 10,000       | 10,000       |
| 3.7                            | Second layer (more than 10 million)                                   | -            | -            |
| 3.8                            | Percentage of the first layer (fixed)                                 | 18%          | 18%          |
| 3.9                            | Percentage of the second layer (fixed)                                |              |              |
| 3.10                           | Result based on premiums  | 1,529        | 1,714        |
| 3.11                           | Holding level   | 100%         | 100%         |
| <b>3.12</b>                    | <b>Result of solvency based on premiums</b>                           | <b>1,529</b> | <b>1,714</b> |
| <b>4</b>                       | <b>Based on claims</b>  |              |              |
| 4.1                            | Incurred gross claims (see table of claims)                           | 3,399        | 4,816        |
| 4.2                            | First layer (fixed)   | 7,000        | 7,000        |
| 4.3                            | Second layer  |              |              |
| 4.4                            | Percentage of the first layer (fixed)                                 | 26%          | 26%          |
| 4.5                            | Percentage of the second layer (fixed)                                | 23%          | 23%          |
| 4.6                            | Sum of the first layer  | 742          | 1,068        |
| 4.7                            | Net and gross incurred claims ratio                                   | 100%         | 100%         |
| 4.8                            | Minimum percentage  | 50%          | 50%          |
| <b>5</b>                       | <b>Result of solvency based on claims</b>                             | <b>742</b>   | <b>1,068</b> |



| <b>5</b>   | <b>Required Solvency</b>                | <b>2018</b>  | <b>2019</b>  |
|------------|---|--------------|--------------|
| 5.1        | Based on premiums                       | 1,529        | 1,714        |
| 5.2        | Based on claims                         | 742          | 1,068        |
| 5.3        | Required solvency                       | 1,529        | 1,714        |
| 5.4        | Required solvency for the previous year | 1,529        | 1,714        |
| <b>5.5</b> | <b>Solvency based on growth of 150%</b> | <b>2,294</b> | <b>2,572</b> |

## 2 TABEL 2 -CAPITAL CALCULATION

| <b>Table for Capital calculation</b> |  | <b>2018</b>  | <b>2019</b>  |
|--------------------------------------|--|--------------|--------------|
|                                      |  | EUR'000      | EUR'000      |
| <b>I</b>                             | <b>CHARTER CAPITAL</b>   | <b>5,000</b> | <b>5,000</b> |
| 1                                    | Paid share capital of insurers in cash   | 5,000        | 5,000        |
| 2                                    | Capital reserves (reserves recognized by law and free reserves),<br>Accumulated profits transferred after the deduction of dividends<br>to be paid | -            | -            |
| 3                                    |  | -            | -            |
| <b>II</b>                            | <b>DEDUCTIBLE ELEMENTS FROM CHARTER CAPITAL</b>  | <b>(784)</b> | <b>(478)</b> |
| 1                                    | Repurchased own shares   | -            | -            |
| 2                                    | Investments in intangible (non-material) assets;   | -            | -            |
| 3                                    | Transferred losses and losses of the current year;   | (784)        | (478)        |
| 4                                    | Difference between reserves for discounted and undiscounted  | -            | -            |
| <b>III</b>                           | <b>SUPPLEMENTARY CAPITAL</b>   | <b>919</b>   | <b>1,286</b> |
|                                      | Share capital of the insurer, consisting of preferential shares<br>issuance according to their nominal amount paid in cash in insurer<br>equity    | -            | -            |
| 1                                    |  | -            | -            |
| 2                                    | Subordinated debt Instruments,   | -            | -            |
| 3                                    | Capital reserves linked to preferential share  | -            | -            |
| 4                                    | Other elements   | 919          | 1,286        |
| <b>IV</b>                            | <b>REGULATORY CAPITAL, (I - II + III)</b>  | <b>5,135</b> | <b>5,807</b> |
| <b>V</b>                             | <b>DEDUCTIBLE ELEMNTS IN CAPITAL CALCULATION</b>   | -            | -            |
| 1                                    | Participations or possessions in ownership of other companies  | -            | -            |
| 2                                    | Investments in subordinated debt instruments   | -            | -            |
| <b>VI</b>                            | <b>NON-LIQUID ASSETS</b>   | <b>648</b>   | <b>3,186</b> |
| 1                                    | Premiums receivable and debtors from the reinsurance for more<br>than 90 days  | 212          | 325          |
| 2                                    | Borrowings and receivables with related parties  | 125          | 1,440        |
| 3                                    | Debtors and other accounts receivable, which derive from the<br>insurance activity   | -            | -            |
| 4                                    | Borrowings from brokers and agents   | -            | -            |
| 5                                    | 100% expenses paid in advance and deferred tax assets  | 80           | 138          |
| 6                                    | Other assets, not excluded from any responsibility or liability  | -            | 1,055        |
| 7                                    | Other assets which are not easily convertible into cash  | -            | -            |
| 8                                    | Intangible assets  | 231          | 228          |
| 9                                    | Other  | -            | -            |
| <b>VII</b>                           | <b>NET PROPERTY - AVAILABLE CAPITAL (IV - V - VI)</b>  | <b>4,487</b> | <b>2,621</b> |
| <b>VIII</b>                          | <b>GUARANTEE FUND ACCORDING TO THE LAW</b>   | <b>3,200</b> | <b>3,200</b> |
| <b>IX</b>                            | <b>REQUEST FOR CAPITAL ACCORDING TO THE GUARANTEE<br/>FUND</b>   | <b>1,287</b> | <b>(579)</b> |
| <b>X</b>                             | <b>REQUEST FOR SOLVENCY COVERAGE</b>   | <b>2,193</b> | <b>50</b>    |
| <b>XI</b>                            | <b>FINAL REQUEST FOR CAPITAL GROWTH</b>  | <b>-</b>     | <b>(579)</b> |

## 3 TABEL 3 ASSETS / INVESTMENTS IN COVERING TECHNICAL PROVISIONS

| No  | Assets / Investments in covering technical provisions                               | Actual amount invested<br>EUR'000 | % Of assets allowed to cover technical provisions | The amount allowed by regulation<br>EUR'000 |
|-----|---|-----------------------------------|---|---|
| 1   | Deposits in banks licensed in Kosovo over 3 months, (excluding the charter capital) | 5,310                             | Unlimited   | 5,310                                       |
| 2   | Government securities   |                                   |   |   |
| 3   | Land and Buildings  | 1,838                             | 20% In total                                      | 1,805                                       |
| 4.2 | Current accounts  |                                   |   |   |
| 4.1 | Cash in hand  |                                   |   |   |
| 4   | Cash and cash equivalents   | 345                               | 3%  | 271   |
| 5   | Accounts receivable from reinsurance, net of liabilities                            | -                                 | Unlimited   | -   |
| 6.1 | With credit rating <BBB   |                                   |   |   |
| 6   | The reinsurer's share in technical provisions, net of liabilities                   |                                   |   |   |
| 7   | Estimated investment interests  | 125                               | 5%  | 125   |
| 8   | Accounts receivable from the insurance activities, up to 90 days                    | 671                               | Up to 20% of UPR                                  | 671   |
| 9   | Other fixed assets, different from point 3.   | 493                               | 5%  | 451   |
| 10  | Total investments covering technical provisions                                     | 8,783                             |   | 8,633                                       |

| No. | Technical Provisions                                       | 2019<br>EUR'000 |
|-----|--|-----------------|
| 1   | Provisions for unearned premium and unsuccessful risk      | 4,549           |
| 2   | Provisions for Loss and Loss adjustments                   | 4,474           |
| 3   | Other technical provisions                                 | -               |
| 4   | <b>Total amount required to cover technical provisions</b> | 9,023           |
| 5   | Assets covering technical provisions                       | 8,633           |
| 6   | Total technical provisions                                 | 9,023           |
| 7   | <b>Difference (5-6)</b>                                    | (390)           |
| 8   | <b>Coverage (5/6)</b>                                      | 100%            |
| 9   | <b>Required coverage according to regulation (6*100%)</b>  | 9,023           |
| 10  | <b>Surplus of assets (5-9)</b>                             | (391)           |



