SIGAL LIFE UNIQA GROUP AUSTRIA SH.A

Financial statements prepared in accordance with

International Financial Reporting Standards

for the year ended 31 December 2019

with Independent Auditor's Report

Content

Independent Auditor's Report

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To the Shareholder of Sigal Life Uniqa Group Austria sh.a.

Opinion

We have audited the financial statements of Sigal Life Uniqa Group Austria sh.a. (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of 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 (IFRSs).

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 Kosovo, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the supplementary schedule that include "Solvency margin" and "Assets deemed to back insurance liabilities".

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, 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.

Other matter

The financial statements of Sigal Life Uniqa Group Austria sh.a. for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion in their report on 02 May 2019.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

Grant Thornton

- 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 of Sigal Life Uniqa Group Austria sh.a. 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.

GRANT THORNTON L.L.C. KOSOVO

Grant Thornton LLC
Prishtina,
29 May 2020

Suzana Stavrikj
Statutory auditor

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and cash equivalents	10	161,499	218,803
Term deposits	11	4,270,163	4,226,993
Investment securities	12	354,179	354,212
Insurance receivable	13	636,003	437,081
Reinsurance assets		7,490	1,484
Deferred acquisition costs	14	15,758	20,947
Equipment and right of use assets	15	32,090	2,481
Intangible assets	16	15,541	11,062
Prepayment		17,500	8,300
Other Assets		7,971	-
TOTAL ASSETS		**5,518,196**	**5,281,363**
LIABILITIES			
Insurance contract liabilities	17	455,469	389,711
Unearned premium insurance liabilities	18	257,259	159,920
Other liabilities	19	136,868	58,573
Tax payables		6,000	11,447
Lease Liability (IFRS 16)	15	29,066	-
TOTAL LIABILITIES		**884,661**	**619,651**
SHAREHOLDERS' EQUITY			
Share capital	20	3,500,000	3,500,000
Retained earnings		1,133,534	1,161,712
TOTAL SHAREHOLDERS' EQUITY		**4,633,534**	**4,661,172**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,518,196**	**5,281,363**

These financial statements have been approved by the Executive Management of the company on 30 April 2019 and signed on their behalf by:

Mr. Perparim Drini
Chief Executive Officer

Mrs. Vlera Halili
Chief Financial Officer

Notes from page 8 to 35 form an integral part of these financial statements.

SIGAL LIFE UNIQA GROUP AUSTRIA SH.A
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

(All amounts in EUR, unless otherwise stated)

	Note	**Year ended 31 December 2019**	**Year ended 31 December 2018**
Gross written premiums	21	1,116,295	856,497
Premium tax		(35,502)	(42,825)
Change in the gross provision for unearned premiums	18	(97,339)	(73,199)
Gross earned premium net of premium tax		**983,454**	**740,473**
Premium ceded to reinsurers		(11,437)	(4,124)
Reinsurance share of unearned premium		6,007	1,102
Net premium earned		**978,024**	**737,451**
Interest income		77,354	64,050
Other income		1,067	657
Net income		**1,056,445**	**802,158**
Change in reserve	17	(65,758)	17,401
Claims paid	17	(186,976)	(102,343)
Net insurance claims		**(252,734)**	**(84,942)**
Acquisition costs	22	(378,515)	(257,142)
Administrative expenses	23	(227,810)	(190,882)
Impairment of insurance receivables	13	(15,412)	(456)
(Loss) / Profit before income tax		181,974	268,736
Income tax expense	24	(11,752)	-
Net profit for the year		**170,222**	**268,736**
Other comprehensive income		-	-
Total comprehensive income		**170,222**	**268,736**

Notes from pages 8 to 35 form an integral part of these financial statements.

SIGAL LIFE UNIQA GROUP AUSTRIA SH.A
Statement of Changes in Equity for the year ended 31 December 2019
(All amounts in EUR unless otherwise stated)

	Share capital	Retained earnings	Total
Balance as at 1 January 2018	**3,500,000**	**892,976**	**4,392,976**
Net profit for the year	-	268,736	268,736
Other comprehensive income	-	-	-
Total comprehensive income	-	**268,736**	**268,736**
Balance as at 31 December 2018	**3,500,000**	**1,161,712**	**4,661,712**
Correction of opening balance		1,600	1,600
At 01 January 2019 restated	**3,500,000**	1,163,312	4,663,312
Transactions with owners recorded directly in equity			
Contributions by owners	-	-	-
Dividend distribution	-	(200,000)	(200,000)
Total transactions with owners recorded directly in equity		**(200,000)**	**(200,000)**
Net profit for the year	-	170,222	170,222
Other comprehensive income	-	-	-
Total comprehensive income	-	**170,222**	**170,222**
Balance as at 31 December 2019	**3,500,000**	**1,133,534**	**4,633,534**

Notes from pages 8 to 35 form an integral part of these financial statements.

SIGAL LIFE UNIQA GROUP AUSTRIA SH.A
Statement of Cash Flows for the year ended 31 December 2019

(All amounts in EUR, unless otherwise stated)

	Notes	For the year ended 31 December 2019	For the year ended 31 December 2018
Cash flows from operating activities			
Profit for the year		**170,222**	**268,736**
Adjustments for:			
Depreciation	15,16	30,025	5,004
Corporate income tax expenses		47,254	42,825
Interest income		(77,354)	(64,049)
		170,147	**252,516**
(Increase)/decrease in reinsurance share for unearned premiums		(6,006)	(1,102)
(Increase)/decrease in insurance receivables		(214,335)	(230,583)
Decrease in deferred acquisition cost		5,189	5,224
Increase in insurance contract liabilities		65,758	(17,401)
Increase in unearned premium reserve		97,339	73,198
Increase/(decrease) in other liabilities		77,125	14,500
Decrease / Lease Liability net impact		(5,952)	-
Increase in prepayments and other assets		(17,171)	(7,300)
		172,094	**89,052**
Interest received		84,184	43,805
Corporate income tax paid		(52,701)	(38,129)
Cash inflows from operating activities		**203,577**	**94,728**
Cash flows from investing activities			
Purchases of equipment	15,16	(10,881)	(15,095)
Increase in term deposits		(100,000)	(150,000)
Decrease in deposits		50,000	-
Net cash used in investing activities		**(60,881)**	**(165,095)**
Financial activities			
Dividends paid		(200,000)	**-**
Net cash (used in) financial activities		**(200,000)**	**-**
Net increase in cash and cash equivalents		**(57,304)**	**(70,367)**
Cash and cash equivalents at 1 January		218,803	289,170
Cash and cash equivalents at 31 December	**10**	**161,499**	**218,803**

Notes from pages 8 to 35 form an integral part of these financial statements.

1. General information

Sigal Life Uniqa Group Austria sh.a (the "Company") is a joint-stock company registered at the Kosovo Business Registration Agency on 10 May 2011. The Company was established under UNMIK regulation 2001/25 and rule 31 of Central Bank of Kosovo in licensing of life insurance companies in Kosovo dated 18 December 2007. The Company is owned by Sigal Uniqa Group Austria Sh.a, an Albanian entity which ultimate parent is Uniqa Insurance Group A.G Vienna, Austria ("UNIQA" or "Ultimate Parent Company") a joint stock company incorporated and domiciled in Republic of Austria. The Company provides life insurance services such as personal insurance, term life insurance and endowment insurance in the Republic of Kosovo. The Company is registered address and place of business is "Pashko Vasa" St, Pristina, Kosovo no.15. At 31 December 2019, the Company had 11 employees (2018: 11).

Management of the Company

The Management Board during 2019 and up to the date of the approval of these financial statements, comprised:

Perparim Drini	CEO
Dardan Nimani	Deputy CEO
Vlera Halili	CFO

The Board of Directors during 2019 and up to the date of the approval of these financial statements, comprised:

Avni Ponari	Chairman
Klement Mersini	Member
Abdyl Sarja	Member
Elvis Ponari	Member
Saimir Dhamo	Member
Perparim Drini	Member without right of the vote

2. Basis of accounting

Statement of compliance These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3 and 4 for adoption of new or revised standards and interpretations and new accounting pronouncements adopted by the Company).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

Functional and presentation currency These financial statements are presented in EUR, which is the Company's functional currency, and the currency of the primary economic environment in which the Company operates.

3. Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Company from 1 January 2019:

Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"

The amendments address concerns arising from implementing the new IFRS 9 Financial Instruments, before the new standard, which is currently under development and applies to insurance contracts, comes into effect. The new standard will replace the existing IFRS 4. The amendments provide two options when accounting for insurance contracts: a temporary exemption from applying IFRS 9 and the overlay approach, which allows the entities issuing insurance contracts falling within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. Due to the adoption of the new standard that addresses insurance contracts, IFRS 17, insurance companies may apply the standard from 1 January 2023. The deferral condition is that the carrying amount of liabilities arising from the insurance business is at least 90% of total carrying amount of liabilities.

3. Adoption of new or revised standards and interpretations (continued)

The Company meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2023, applying the temporary exemption from applying IFRS 9 as introduced by the amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In these financial statements, the Company has applied IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time.

Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

• Whether an entity considers uncertain tax treatments separately

• The assumptions an entity makes about the examination of tax treatments by taxation authorities

• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

• How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Company applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatment will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instruments, the Company assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Company.

4. New accounting pronouncements

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

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9 (see above).

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

4. New accounting pronouncements (continued)

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company’s financial statements.

5. Significant accounting policy

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the Company’s functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in profit or loss.

(b) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

(c) Recognition and measurement of insurance contracts

(i) Life insurance premiums

Gross written premiums comprise the amounts due during the financial year in respect of direct insurance regardless of the fact that such amounts may relate wholly or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes 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. Outward reinsurance premiums are recognized as an expense in accordance with the pattern of reinsurance service received.

5. Significant accounting policy (continued)

(c) Recognition and measurement of contracts (continued)

(ii) Unearned premium provision

The provision for term life and personal insurance has been calculated using actuarial methods by considering the outstanding principal adjusted with the mortality risk coefficient and risk of loss of life. The Company has used the daily pro - rata basis (1/365 method) to determine the unearned premium for the health insurance. The unearned premium is calculated net of acquisition expenses for credit life and term life. The unearned premium for the Payment Protection Insurance ("PPI") has been disclosed gross of policy acquisition costs. The effect of the acquisition costs is estimated based on the ratio of acquisition costs to gross written premium.

(iii) Claims

Benefits recognized for life insurance policies during the reporting period consist of payments during the financial year together with the movement in the provision for outstanding benefits. Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

(iv) Claims provisions

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 including an estimate for the cost of claims incurred but not reported (IBNR) at that date. The provision for reported but not settled claims is created on a case by case basis to the amount of expected payment. The provision for claims incurred but not reported is created using the simple claims ratio method.

(v) Claims arising from life insurance business

Life insurance business claims reflect the cost of all claims arising during the year, including policyholder bonuses allocated in anticipation of a bonus declaration.

(vi) Other mathematical reserves

The life insurance provision is calculated on a policy basis using standard actuarial commutation factor formulae, based on net reserving. The assumptions on mortality and interest rate used in reserving are consistent with pricing assumptions.

(vii) Reinsurance

Contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognized in the same year as the related claim. Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers' are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. The Company ceded insurance premiums and risk in order to limit its potential losses arising from longer exposures to significant losses from credit life insurance.

Reinsurance does not relieve the originating insurer of its liability. Premiums ceded to reinsurers are presented in profit or loss on the basis of the current period reinsurance charges. Benefits reimbursed are presented in profit or loss and statement of financial position on a gross basis. The product portfolio has been covered by reinsurance obligatory treaty covering the surplus of the sum at risk on the related insurance policies. Any additional benefit is divided between the retention and the surplus at the same proportion as the basic life sum insured. The reinsurance share in reserves is established case by case according to relevant treaties.

5. Significant accounting policy (continued)

(c) Recognition and measurement of contracts (continued)

(viii) Deferred acquisition costs

Deferred acquisition costs are calculated based on Endowment, Regular Term and Single Term policies. For Term Life policies, DAC is calculated based on the commission determined on an individual policy basis. Commission paid per each policy is divided by the gross written premium of that policy. The resulting ratio is further multiplied by GWP UPR reserves. As a result, acquisition costs are deferred over the duration of the respective policies. For Endowment policies, DAC is calculated in accordance with Uniqa Group DAC Standard. The simplified approach specified in the standard has been implemented by the Company. Therefore, Simplified Standard DAC Excel file provided by the Group has been used together with the following assumptions are used in calculation:

- Discount rates – risk free rates that are calculated and obtained from the Group
- Lapse rates – rates calculated based on portfolio experience
- Mortality rates – mortality from the Customized MT for the average policyholder per each underwriting year
- Commission – actual brokerage commissions.

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

(d) Financial instruments

The Company classifies non-derivative financial instruments into loans and receivables and held to maturity assets and non-derivative financial liabilities into other financial liabilities.

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Company initially recognizes receivables on the date when they are originated.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

(ii) Non-derivative financial assets and financial liabilities – Measurement

Loans and receivables and Held-to-maturity financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's activity.

5. Significant accounting policy (continued)

(d) Financial instruments

(iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(v) Identification and measurement of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advances on terms that the Company would not otherwise consider, indication that the borrower will enter in bankruptcy or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment at both collective and specific levels. Loans at the collective level are assessed for impairment by grouping together borrowers with similar credit characteristics. Loans at the specific level are identified based on objective evidence of a risk level that exceeds the historical risk level of loans such as default, restructuring, deteriorated economic conditions and delinquency of more than 90 days for a single borrower who does not have evidenced income. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used from the Company in the management of it short-term commitments.

Cash and cash equivalents are carried at amortized cost using the effective interest method.

(f) Term deposits

Term deposits are stated in the statement of financial position at the amount of principal outstanding and are classified as those with initial maturities more than three months. Interest is accrued using the effective interest method and interest receivable is reflected in other receivables.

(g) Investment securities

Investment securities are debt investments that the Company has the intent and ability to hold to maturity and are classified as held-to-maturity assets. Investments, which have fixed or determinable payments and which are intended to be held-to-maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition.

5. Significant accounting policy (continued)

(h) Insurance and other receivables

Receivables including insurance receivables are initially recognized at fair value and subsequently measured at their amortised cost less impairment losses.

(i) Insurance and other payables

Insurance and other payables are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(j) Equipment

(i) Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

(ii) Subsequent cost

The cost of replacing part of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation and amortization

Depreciation is recognised in profit or loss using the declining balance method. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The depreciation rates for the current and comparative periods are as follows:

	%
Computers and related equipment	4 years
Furniture, fixtures, and equipment	5 years

(k) Intangible Assets

Intangible assets are recognized if it is estimate that future economic benefits attributed to the asset will enter the Company and the cost of the asset can be measured reliably. Intangible assets are initially measured at cost. The carrying values of intangible assets are reviewed for a decrease in value, when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets consist entirely of computer programs that are depreciated using the linear method during their estimated lifetime.

Intangible assets have e definite useful life of 4 years and are amortized over this term.

(l) Leased property and equipment

IFRS 16 applicable for the reporting periods after 01 January 2019 specifies how an IFRS reporter will recognize, measure, present and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases of low value assets. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 14.

5. Significant accounting policy (continued)

(l) Leased property and equipment (continued)

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "other liabilities" in the statement of financial position (note 15).

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.86%.

The Company uses one or more of the following practical expedients according to IFRS 16.C10, applying it on a lease -by-lease basis:

- Using a single discount rate to a portfolio of leases with similar characteristics;
- Adjusting the right-of-use asset for any recognized onerous lease provisions, in-stead of performing an impairment review;
- Applying a recognition exemption for leases for which the lease term ends within 12 months of the date of initial application and leases of low-value assets (For this purpose the Company has chosen a threshold of around € 5 thousands). The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term;

5. Significant accounting policy (continued)

(l) Leased property and equipment (continued)

- Excluding initial direct costs from the measurement of the right-of-use asset;
- Using hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
- the Company has the right to operate the asset; or
- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company measured the Right of Use Asset equals to the Lease Liability. In determining whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - i) the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - ii) the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - iii) facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

5. Significant accounting policy (continued)

(m) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Revenue recognition

The accounting policy in relation to revenue from insurance contracts is disclosed in notes 5.c.i. Interest income on financial assets is recognised using the effective interest method.

(o) Employee benefits

The Company makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The Government is responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. The Company's contributions to the pension plan are charged to profit or loss as incurred and the Company has no further liabilities.

(p) Operating leases

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 expenses on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(q) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre tax rate. Provisions reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(r) Income tax

Effective 1 September 2015 in accordance with Republic of Kosovo Law on Corporate Income Tax no.05/L-029, insurance companies are required to pay a corporate income tax of 5% (2017: 5%) on their quarterly gross premiums. Premiums returned and retrospective premium adjustments are deducted from gross premiums to arrive at the tax base. Starting from 5th August 2019, change in the tax regulation was implemented whereas the insurance companies will start to pay income tax of 10%. The changes in the income tax regulation are effective for the fiscal year 31 December 2019.

Tax on gross premiums written is presented separately as a deduction from the gross premiums written. Premium tax constitutes a part of acquisition costs and is expensed when incurred. Because of the specifics deferred income tax is not calculated as there are no temporary differences between tax and accounting basis of assets and liabilities.

6. Critical judgement and estimates

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. 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 the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on Customized mortality tables (“MTs”) based on mortality tables used in region due to lack of reliable MT’s for Kosovo, adjusted where appropriate to reflect the Company’s own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics (e.g. AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, post-war trauma, etc. could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk). However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. At each reporting date, the Company performs tests to ensure the adequacy of insurance contract liabilities. The primary tests performed are claim ratio analysis. The claim ratio analysis is performed annually on the major lines of business individually (credit life and combined life). 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 outflows because most claims are expected to be settled within one year. Sensitivity analysis results for main assumptions used on estimate of liability arising from claims is shown on note 7.6.

7. Insurance risk management

The Company is exposed to actuarial and underwriting risk arising from the range of life products offered to customers.

Insurance risk relates to the uncertainty of the insurance business. The most significant components of insurance risk are the premium risk and the reserve risk. These concern the adequacy of insurance premium rate levels and the adequacy of provisions with respect to insurance liabilities and the capital base.

Premium risk is present as soon as the policy is issued, that is the risk that expenses and incurred losses will be higher than the premium received. Reserve risk represents the risk that the absolute level of the technical provisions is underestimated or that the actual claims will fluctuate around the statistical mean value.

Underwriting risk components of the life business include biometric risk (comprising mortality, longevity, morbidity and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rate of policy lapses, terminations, changes to paid-up status (cessation of premium payment) and surrenders.

7.1 Risk management objectives and policies for mitigating insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Company accepts insurance risk through its insurance contracts and certain investment contracts where it assumes the risk of loss from persons or organizations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

Reinsurance is purchased to mitigate the effect of potential loss to the Company from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis.

Regulatory capital is also managed (though not exclusively) by reference to the insurance risk to which the Company is exposed. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

7.2 Underwriting strategy

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

7.3 Terms and conditions of insurance contracts

Substantially, all products underwritten by the Company cover mortality risk as well as additional risk such as temporary and/or permanent disability, medical expenses cover repatriating and hospitalization expenses. Products other than endowment fund have similar characteristics of short tail products and are renewable every year with an option to change the premium by the Company. The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contract are set out below.

Credit Life
The contracts classified as credit life are mainly renewable annual policies covering risk of death sold through a bank extending credit. In some cases the risk is covered partially. The amount insured decreases with time together with the repayment of credit.

Combined insurance
The combined insurance represents policies under which the Company is writing both term life and health insurance. The term contracts pay out guaranteed benefits on death and critical illness that are fixed amounts and not at discretion of the Company. The contracts include both individual and group schemes.

7. Insurance risk management (continued)

7.3 Terms and conditions of insurance contracts (continued)

Endowment

The Endowment product has a life and savings component. Benefits of such life insurance are payable to the insured if he/she is still living on the policy's maturity date, or to a beneficiary otherwise. The maturity varies from 5 to 30 years. In case of surrender in the first three years of the policy, the Company does not have any obligation to the policyholder. After this period the Company pays the surrender a value defined by the conditions of the policy. The product is long term with guaranteed benefits which volume is expected to grow in the future. The benefit in case of death is equal to the sum of the savings part of the reserve and the sum assured which is in the range of EUR 2,400 and EUR 50,000.

Reinsurance and concentration risk

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. The Company has ceded insurance risk to limit exposure to underwriting losses and to minimize the effect of losses from credit life insurance, by way of reinsurance treaties entered into.

7.4 Exposure relating to catastrophic events

The Company considers that it has not accumulated significant exposures in its major insurance activity related to catastrophic events.

7.5 Technical interest

The technical interest rate is used when calculating the reserve. The technical interest rate is the minimum guaranteed return for every life insurance contract. To avoid the risk that income from investments will not cover the minimum guaranteed return, the Company has used an interest rate of 1.75% in calculating mathematical reserves. In 2018, the generated net income on investments (including mathematical reserves) covers the minimum guaranteed income for some part of the portfolio, granting additional profit above the technical interest. The analysis of the actuarial parameters used in the calculation of the tariffs and life insurance reserves shows that the assumptions are appropriate.

7.6 Reserves and actuarial assumptions

The Company calculates and charges a life insurance reserve (mathematical reserve) to provide for future payments under long term insurance policies. Many factors affect the calculation of these reserves including, mortality, cancellations and technical interest. Life insurance reserve is calculated based on current assumptions for the basic parameters.

The Company calculates and charges the technical provisions to provide for future payments under long term insurance policies. Many factors affect the calculation of these reserves including, mortality, cancellations and technical interest. Technical provision is calculated based on current assumptions for the basic parameters.

Mortality is the risk covered by all insurance products, underwritten by the Company. "Mortality" risk occurrence data for 2019 and 2018 including estimations used are as follows:

	2019	**2018**
Number of people currently insured susceptible to the risk of death	13,505	9,041
Average age of people susceptible to the risk of death	54	43
Number of payments following deaths of insured	17	1

7. Insurance risk management (continued)

7.6 Reserves and actuarial assumptions (continued)

Assumptions and sensitivities

The main factors affecting the profit of the company are the level of claims ratio and expenses. The table below presents a simulation, taking into account changes to claims incurred or increases in expenses, and its effect on the net equity of the Company and the available solvency margin. For the purpose of the simulation, the model uses a claims increase equal to the corresponding largest claim incurred in the last two years, and administrative expense increase by 10%.

Situation as at 31 December 2019	Profit/(Loss)	Net Equity	Required Guarantee Fund
Current	170,222	4,633,534	3,200,000
Increase in claims incurred	(30,000)	4,603,534	3,200,000
Increase in expenses (+10%)	(24,257)	4,579,277	3,200,000

The risks associated with the life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses statistical and actuarial techniques including indicators such as the expected loss ratio. The Company considers that the liability for life insurance claims reserve recognized in the statement of financial position is adequate. However actual experience will differ from the expected outcome. An overview of claim loss and combined ratio for the year 2019 and 2018 is provided below:

	2019	2018
Claim ratio	24.94%	10.89%
Expense ratio	60.77%	57.03%
Combined ratio	85.70%	68.12%

The results of the sensitivity analysis showing the impact on profit for the year are set out below. For such sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged.

	Impact	2019	2018
Claim ratio			
5% increase in claim ratio	Loss	(12,637)	(4,247)
5% decrease in claim ratio	Gain	12,637	4,247
Expense ratio			
5% increase in expense ratio	Loss	(30,795)	(22,329)
5% decrease in expense ratio	Gain	30,795	22,329
Combined ratio			
5% increase in combined ratio	Loss	(43,432)	(26,576)
5% decrease in combined ratio	Gain	43,432	26,576

7.7 Reinsurance

The Company cedes insurance risk to limit exposure to underwriting losses under separate agreements for each type of insurance. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company’s evaluation of the specific risk, subject in certain circumstances to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

The concentration of technical and claims provisions by type is summarized on the table below:

7. Insurance risk management (continued)
7.7 Reinsurance (continued)

	2019			2018		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Type of provision						
RBNS	41,165	-	41,165	1,050	-	1,050
IBNR	4,117	-	4,117	1,050	-	1,050
Mathematical provision	410,187	-	410,187	387,611	-	387,611
Total	**455,469**	**-**	**455,469**	**389,711**	**-**	**389,711**

The concentration of unearned premium by type of contract is summarized on the table below:

	2019			2018		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Business line						
Term insurance	243,352	(7,489)	235,862	144,089	(1,393)	142,696
Personal Insurance	12,900	(1)	12,899	14,631	(91)	14,540
Endowment	1,007	-	1,007	1,200	-	1,200
Total	**257,259**	**(7,490)**	**249,769**	**159,920**	**(1,484)**	**158,436**

8. Financial risk management

The Company monitors and manages the financial risks relating to the operations of the Company through internal risk analysis which describes exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk), credit risk and liquidity risk. The Company does not make use of derivative financial instruments to hedge these risks exposures.

(i) Market risk

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates. There is minimal market risk at 31 December 2019. The Company does not invest in equities and has financial instruments almost exclusively denominated in Euro. Interest rate risk is mainly with held to maturity investment which is held at fixed rates.

(ii) Currency risk

The Company undertakes transactions mainly in Euro to satisfy regulatory and self-imposed capital requirements. Currency risk in the investment portfolio is managed using assets/liabilities matching principles. The Company has no exposure to monetary assets and liabilities denominated in foreign currencies as at 31 December 2019 and 2018.

(iii) Interest rate risk

Interest rate risk is comprised of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The financial assets and liabilities of the Company carry market interest rates.

The Company has no significant exposure to interest rate risk with the exception of its held to maturity investments, deposits held with banks and its mathematical provision, which earn interest at fixed commercial rates and are scheduled to mature upon fixed dates.

8. Financial risk management (continued)

(iii) Interest rate risk (continued)

	31 December 2019			
	Non-interest bearing	Fixed interest up to 1 year	Fixed interest over 1 year	Total
Cash on hand and at banks	161,499	-	-	161,499
Term deposits	320,000	935,228	3,014,935	4,270,163
Investment securities	4,179	-	350,000	354,179
Reinsurance assets	7,490	-	-	7,490
Insurance receivables	636,003	-	-	636,003
Other assets	7,971	-	-	7,971
Prepayment	17,500	-	-	17,500
DAC	15,758	-	-	15,758
Equipment and right of use assets	32,090	-	-	32,090
Intangible assets	15,542	-	-	15,542
Assets	**1,218,032**	**935,228**	**3,364,935**	**5,518,196**
Insurance contract liabilities	455,469	-	-	455,469
Unearned premium reserve	257,259	-	-	257,259
Other liabilities	136,868	-	-	136,868
Lease Liability IFRS 16	29,066			29,066
Liabilities	**878,662**	**-**	**-**	**878,662**
IR Sensitivity Gap	**339,370**	**935,228**	**3,364,935**	**4,639,534**

	31 December 2018			
	Non-interest bearing	Fixed interest up to 1 year	Fixed interest over 1 year	Total
Cash on hand and at banks	218,803	-	-	218,803
Term deposits	320,000	1,341,993	2,565,000	4,226,993
Investment securities	-	4,212	350,000	354,212
Reinsurance assets	1,484	-	-	1,484
Insurance receivables	437,081	-	-	437,081
Financial assets	**977,368**	**1,346,205**	**2,915,000**	**5,238,573**
Insurance contract liabilities	389,711	-	-	389,711
Unearned premium reserve	159,920	-	-	159,920
Other liabilities	49,585	-	-	49,585
Financial liabilities	**599,216**	**-**	**-**	**599,216**
IR Sensitivity Gap	**378,152**	**1,346,205**	**2,915,000**	**4,639,357**

(iv) Credit risk

In the normal course of its business, as premiums are received, they are invested to pay for future policy holder obligations. The Company is exposed to credit risk on its cash at banks, term deposits, financial assets held to maturity, insurance receivables and reinsurance counterparties. The Company manages its exposure to credit risk on a regular basis by closely monitoring its exposure to term deposit counterparties and insurance receivables. The Company's credit risk is primarily with the cash invested with the Central Bank and commercial banks operating in Kosovo. Maximum exposure to credit risk is as follows:

(All amounts in EUR, unless otherwise stated)

8. Financial risk management (continued)

(iv) Credit risk (continued)

	31 December 2019	31 December 2018
Cash and cash equivalents	161,499	218,803
Term deposits	4,270,163	4,226,993
Investment securities	354,179	354,212
Reinsurance assets	7,490	1,484
Insurance receivables	636,003	437,081
Total	**5,429,334**	**5,238,573**

Credit quality of financial assets is disclosed in their respective notes.

(v) Liquidity risk

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. Liquidity risk is moderately inherent to the Company's business as certain assets purchased and liabilities sold could have liquidity characteristics that are specific. If the Company would require significant amounts on short notice in excess of normal cash requirements it may face difficulties to obtain attractive prices. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financial assets and liabilities as of 31 December 2019 detailed by expected (for insurance liabilities only) and contractual maturity are disclosed below:

Liquidity risk	Up to 6 months	6 months to 1 year	More than 1 year	Total
Cash and cash equivalents	161,499	-	-	161,499
Term deposits	851,433	403,795	3,014,935	4,270,163
Investment securities	4,179	-	350,000	354,179
Re-insurance assets	7,490	-	-	7,490
Insurance receivables	592,899	27,130	15,974	636,003
Other receivables	7,971	-	-	7,971
Prepayment	17,500	-	-	17,500
Total assets	**1,642,971**	**430,925**	**3,380,909**	**5,454,805**
Insurance contract liabilities	455,469	-	-	455,469
Unearned premium reserve	257,259	-	-	257,259
Other financial liabilities	136,868	-	-	136,868
Total liabilities	**849,596**	**-**	**-**	**849,596**
Net liquidity position as at 31 December 2019	**793,375**	**430,925**	**3,380,909**	**4,605,209**

8. Financial risk management (continued)

(v) Liquidity risk

The Company's financial assets and liabilities as of 31 December 2018 have the following maturities:

Liquidity risk	**Up to 6 months**	**6 months to 1 year**	**More than 1 year**	**Total**
Cash and cash equivalents	218,803	-	-	218,803
Term deposits	2,291,993	1,000,000	935,000	4,226,993
Investment securities	4,212	-	350,000	354,246
Re-insurance assets	1,484	-	-	1,484
Insurance receivables	437,081	-	-	437,081
Total assets	**2,953,573**	**1,000,000**	**1,285,000**	**5,238,573**
Insurance contract liabilities	2,100	-	387,611	389,711
Unearned premium reserve	159,920	-	-	159,920
Other financial liabilities	49,585	-	-	49,585
Total liabilities	**211,605**	**-**	**387,611**	**599,216**
Net liquidity position as at 31 December 2018	**2,741,968**	**1,000,000**	**897,389**	**4,639,357**

(vi) Regulatory capital

According to the local requirements of Central Bank regulation "On licensing of insurers and branches of foreign insurers" Article 4, all insurance Companies in order to provide life insurance are required to ensure a minimum total equity of EUR 3,200 thousand and shareholders paid in capital minimum 3,200 thousand.

(vii) Solvency margin

In accordance with CBK rules and regulations, required solvency margin is calculated separately for life insurance and supplementary insurance. Solvency margin for life insurance is calculated as a sum of first and second result, where first results is calculated as a fraction of 4% of the mathematical provisions relating to direct business and second results is calculated as a 0.3% fraction of capital at risk multiplied by reinsurance ratio for the last financial year. For supplementary insurance solvency margin is calculated by obtaining the higher of the two results, premium basis results or claim basis results. As at 31 December 2019 and as at the date of approval of these financial statements, the Company has a solvent position based on solvency margin calculations as presented in the supplementary schedules of this financial statements.

(viii) Other risks

Changes in governmental regulations in the business segments in which the Company operates may affect profitability. The insurance business is subject to comprehensive and developing supervision. The primary purpose of such regulations is to protect policyholders. Changes in existing insurance laws and regulations may affect the way in which the Company conducts its business and the products offered. Additionally, the insurance laws or regulations adopted and amended from time to time may be more restrictive or may result in higher costs than current requirements.

9. Fair value of financial instruments

The fair value measurement is determined utilising relevant information generated by market transactions involving comparable securities. They are often based on model pricing techniques that discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security's duration, also taking into account issuer-specific credit quality and liquidity. Observable inputs used include benchmark yields. The Company does not have financial assets measured at fair value. The Company accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for disclosures purposes based on the following methods.

Cash and cash equivalent and Term deposits with banks - which comprise cash at bank and term deposits, include inter-bank placements and items in the course of collection. As deposits are short term and at fixed rates their fair value is considered to approximate their carrying amount.
Investment securities - comprises of government bonds and treasury bills issued by the Government of the Republic of Kosovo, those assets have fixed interest rates and are held to maturity and the company has no intention to sell such assets.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

	31 December 2019		**31 December 2018**	
	Fair value Level 2	**Carrying amount**	**Fair value Level 2**	**Carrying amount**
Financial assets				
Cash and cash equivalents	161,499	161,499	218,803	218,803
Term deposits with banks	4,270,163	4,270,163	4,226,993	4,226,993
Investment securities	354,179	354,179	354,212	354,212
Total	4,785,841	4,785,841	4,800,008	4,800,008

The fair value of the financial instruments presented above is similar to their carrying amount.

10. Cash and cash equivalents

	31 December 2019	**31 December 2018**
Raiffeisen Bank	94,878	119,735
NLB Prishtina	21,201	9,419
Pro Credit Bank	9,484	19,304
Banka Private e Biznesit	1,836	46,864
Banka Kombetare Tregtare - BKT	27,912	4,535
TEB BNP Paribas	2,422	6,013
IS Bank	630	7,662
Central Bank of Kosovo - CBK	1,884	1,908
Ziraat Bank	1,252	3,363
Total cash at banks	**161,499**	**218,803**

Cash and cash equivalents consist of current accounts with banks that are subsidiary of foreign banks with appropriate credit rating. Credit quality of the banks is disclosed in note 11.

11. Term deposits

	31 December 2019	31 December 2018
Term deposits – commercial banks	3,908,000	3,878,000
Deposit of minimum required amount in CBK	320,000	300,000
Accrued interest	42,163	48,993
Total term deposits	**4,270,163**	**4,226,993**

The banks in which the Company has deposits are listed below, most of which are domestic subsidiaries of foreign banks. None of these domestic banks have their own credit ratings.

	31 December 2019	31 December 2018
Banka Kombetare Tregtare - BKT	650,000	650,000
NLB Prishtina	615,000	1,115,000
Banka Private per Biznes – BPB	533,000	553,000
IS Bank	770,000	520,000
Ziraat Bank	840,000	240,000
TEB BNP Paribas Bank	500,000	800,000
Total	**3,908,000**	**3,878,000**

The interest rate on term deposits during the year 2019 was between 2.00% and 2.50% p.a. All these banks are part of international banking groups except BpB which is a local bank with local and international individual shareholders. The maturity on term deposits during the year 2019 was between 12 months and 24 months (2018: 12 months and 14 months).

The credit risk ratings of their respective banking groups is presented below:

Bank	**Group**	**Long-term credit rating (Group)**	**Outlook**
Raiffeisen Bank Kosovo	Raiffeisen bank International AG	A-	Stable
Procredit Bank Kosovo	Procredit Holding	BB	Stable
TEB Bank Kosovo	BNP Paribas	BB-	Stable
NLB Prishtina	NLB	BB+	Stable
IS Bank	Turkie IS Bankasi	B+	Stable
BKT	Banka Kombetare Tregtare	AAA	Stable
BpB	N/a Local Bank	N/a not rated	N/a not rated

12. Investment securities

Investment securities relate to investments in Government Bonds of the Republic of Kosovo. These bonds have interest rates 3.5%.

	31 December 2019	31 December 2018
At 1 January	**350,000**	**350,000**
Additions	-	-
Matured investments	-	-
Accretion of Premiums	-	-
At 31 December	**350,000**	**350,000**
Accrued interest	4,179	4,212
Total investments securities	**354,179**	**354,212**

Investment securities consist of Kosovo Government bonds and the maturity date of those balances is 26 February 2021. Credit risk is considered low and such investments are in line with the recommendations of the regulator for low credit risk investments of the guarantee fund (net equity) of insurance companies.

(All amounts in EUR, unless otherwise stated)

13. Insurance receivables

Insurance receivables comprise the following:

	31 December 2019	31 December 2018
Receivables from Endowment	47,618	37,126
Receivables from Term Life Insurance	78,191	36,771
Receivables from Credit Life Insurance	527,259	364,838
Gross insurance receivables	**653,068**	**438,734**
Less: Allowance for impairment loss	(17,065)	(1,653)
Insurance receivables, net	**636,003**	**437,081**

Movement in allowance for impairment losses are as follows:

	2019	2018
Opening balance	1,653	2,208
Impairment charge for the year	15,412	456
Insurance receivable written off	-	(1,011)
Total	**17,065**	**1,653**

Insurance receivables exposures to individual policyholders and groups of policyholders are monitored for delays. Being individually insignificant, the Company does not have an individual monitoring in place unless days past due are identified. Insurance receivable by ageing are as follows:

	31 December 2019	%	31 December 2018	%
Less than 3 months	611,531	94%	422,773	96%
3 to 6 months	13,983	2%	13,238	2%
6 months to 1 year	11,582	2%	2,690	1%
More than 1 year	15,973	2%	33	1%
Total	**653,069**	**100%**	**438,734**	**100%**

The Company manages its exposure to credit risk on a regular basis by closely monitoring its insurance receivables. Insurance and other receivables as of 31 December based on their past due status are presented in the following tables:

	31 December 2019	31 December 2018
Neither past due nor impaired	607,316	407,458
Past due but not impaired	4,210	15,314
Impaired	41,543	15,962
Gross insurance receivables	**653,069**	**438,734**
Less: Allowance for impairment loss	(17,066)	(1,653)
Insurance receivables, net	**636,003**	**437,081**

14. Deferred acquisition costs

	31 December 2019	31 December 2018
Balance at 1 January	20,947	26,171
(Increase) in deferred acquisition costs (note 22)	(5,189)	(5,224)
Balance at 31 December	**15,758**	**20,947**

15. Equipment and right of use assets

	31 December 2019	31 December 2018
Equipment	3,682	2,481
Right-of-use assets (ROU) IFRS 16	28,408	-
Equipment and Right of use Assets (IFS 16)	**32,090**	**2,481**

The Company leases many buildings and vehicles. Information about leases for which the Company is a lessee is presented below

			2019
	Building	Vehicle	Total
Balance as of 1 January	**-**	**-**	**-**
Correction of opening balances	29,134	24,098	53,232
Additions in current year	-	-	-
Depreciation charge for the year	(13,394)	(11,430)	(24,824)
Balance as of 31 December	**15,740**	**12,668**	**28,408**

The following table presents the maturity analysis – contractual undiscounted cash flows of the lease liability:

	2019
Less than a year	29,066
One to five years	116,264
More than five years	-
Total Lease liabilities (undiscounted) at 31 December	**145,330**
Leasing Liability as for 31 December	**29,066**

Amounts presented in Income Statement of the Company as of 31 December 2019:

	2019
Interest expense (note 23)	1,859
Short term expenses for leasing	-
Depreciation	24,824
Total leasing expenses	**26,683**

	Computers and related equipment	Furniture and fixtures	Total
Cost:			
As at 1 January 2018	**4,738**	**2,476**	**7,214**
Additions during the year	145	200	**345**
As at 31 December 2018	**4,883**	**2,676**	**7,559**
Additions during the year	1,141	1,340	**2,481**
As at 31 December 2019	**6,024**	**4,016**	**10,040**
Accumulated depreciation:			
As at 1 January 2018	**(2,466)**	**(1,296)**	**(3,762)**
Charge for the year	(791)	(525)	**(1,316)**
As at 31 December 2018	**(3,257)**	**(1,821)**	**(5,078)**
Charge for the year	(785)	(494)	**(1,280)**
As at 31 December 2019	**(4,042)**	**(2,315)**	**(6,358)**
Carrying amount:			
As at 1 January 2018	**2,272**	**1,180**	**3,452**
As at 31 December 2018	**1,626**	**855**	**2,481**
As at 31 December 2019	**1,982**	**1,700**	**3,682**

16. Intangible assets

	Software
Cost:	
As at 1 January 2018	-
Additions during the year	14,750
As at 31 December 2018	**14,750**
Additions during the year	8,400
As at 31 December 2019	**23,150**
Accumulated depreciation:	
As at 1 January 2018	-
Charge for the year	(3,688)
As at 31 December 2018	**(3,688)**
Charge for the year	(3,921)
As at 31 December 2019	**(7,609)**
Carrying amount:	
As at 1 January 2018	**-**
As at 31 December 2018	**11,062**
As at 31 December 2019	**15,541**

17. Insurance contract liabilities

Insurance contract provisions	**31 December 2019**	**31 December 2018**
Provisions for reported but not settled claim	41,165	1,050
Provision for incurred but not reported	4,117	1,050
	45,282	**2,100**
Mathematical reserve – endowment	410,187	387,611
Insurance contract liabilities, gross	**410,187**	**387,611**
Recoverable from reinsurance	-	-
Net insurance contract liabilities	**455,469**	**389,711**

Net policyholder claims and benefits incurred	**2019**	**2018**
Claims paid	186,976	102,343
Change in notified reported but not settled claim reserve (a)	43,182	(55,125)
Change in incurred but not reported claims reserve and mathematical reserves (b)	22,576	37,724
Net claims and benefits incurred	**252,734**	**84,942**

(a) Analysis of movements in reported but not settled claim:

Provision for liabilities for losses and loss adjustment expenses	**2019**	**2018**
At 1 January	1,050	56,175
Provision for reported but not settled claims		
Changes in the provisions of insurance contracts liabilities	231,208	47,218
Losses and loss adjustment expenses paid	**(186,976)**	**(102,343)**
- Endowment	*(19,622)*	-
-Term life	*(4,168)*	*(71,600)*
- Personal insurance	*(163,184)*	*(30,743)*
Net insurance liabilities for losses and loss adjustment expenses at 31 December	**45,282**	**1,050**

17 Insurance contract liabilities (continued)

(b) Analysis of movement in incurred but not reported claims and mathematical reserves:

	31 December 2019	31 December 2018
Balance as at 1 January	389,711	407,112
(Settled claims)/additions recognized during the year	24,593	(18,451)
New claims reported during 2019	41,165	1,050
Balance at 31 December	**455,469**	**389,711**

18. Unearned premium insurance liabilities

Unearned premium reserve by product is comprised as follows:

	31 December 2019	31 December 2018
Unearned premium reserve - life term insurance	243,352	144,089
Unearned premium reserve - life personal insurance	12,900	14,631
Unearned premium reserve – endowment	1,007	1,200
Total	**257,259**	**159,920**

Movement of unearned premium reserve is presented below:

	2019	2018
Balance as at 1 January	159,920	86,722
Premiums written during the year (note 21)	1,116,295	856,497
Less: premiums earned during the year	(1,018,956)	(783,299)
Balance at 31 December	**257,259**	**159,920**

19. Other liabilities

Financial liabilities	31 December 2019	31 December 2018
Commission Payable	57,261	2,094
Payable to suppliers	1,036	1,792
Reinsurance Payable	2,818	1,060
Accrued expenses	57,998	39,614
Prepaid from costumers	3,322	6,308
Other liabilities	59	317
Total financial liabilities	***122,494***	***51,185***
Non-financial liabilities		
VAT payables	1,512	2,092
Payable to the CBK	10,000	3,091
Pension contribution payable	1,488	1,244
Tax on rent	204	-
Personal income tax	1,169	961
Total non-financial liabilities	**14,374**	***7,388***
Total	**136,868**	**58,573**

20. Share capital

The Company's share capital as at 31 December 2019 is EUR 3,5 million (2018: 3,5 million euro). The share capital is composed of 35,000 common shares with par value of EUR 100 per share authorized and fully paid as at 31 December 2019. Shares of the company as at 31 December 2019 and 2018 are 100% owned by SIGAL UNIQA Group Austria sh.a in Albania.

The Company paid dividends during and as at the year 2019 in the amount of 200,000 EUR (2018 nil).

(All amounts in EUR, unless otherwise stated)

21. Gross written premiums

Gross written premiums by product for the year are comprised as follows:

	2019	**2018**
Personal insurance	819,057	668,744
Term life	224,673	119,508
Endowment	72,565	68,245
Total gross premiums written	**1,116,295**	**856,497**
Tax on gross premiums written	47,254	42,825
Total premiums written, net of tax	**1,069,041**	**813,672**

Analysis by type of premiums

	2019	**2018**
Regular premiums	1,273,689	923,435
Premiums cancelled	(157,394)	(66,938)
Total gross premiums written	**1,116,295**	**856,497**

22. Acquisition costs

Policy acquisition costs for the year are comprised as follows:

	2019	**2018**
Commissions	373,326	251,918
Change in deferred acquisition cost (note 14)	5,189	5,224
Total	**378,515**	**257,142**

23. Administrative expenses

Administrative expenses for the year are comprised as follows:

	2019	**2018**
Staff costs	113,261	102,970
Operating lease expenses	5,055	31,080
Supervision charges	28,481	11,562
VAT expenses	4,374	7,633
Consultancy expenses	2,071	5,661
Depreciation and amortization	30,025	5,004
Professional services	10,060	4,809
Travel expenses	4,066	4,799
IAK Contribution	2,400	1,440
Interest expenses on Lease Liability (note 15)	1,859	-
Workshop expenses	5,476	-
Sponsorship	12,500	-
Bank Changes	1,439	1,447
Other expenses	6,743	14,477
Total	**227,810**	**190,882**

24. Income Taxes

Component of income tax expenses

	2019	2018
Current tax expenses	11,752	-
Deferred tax (expense) / credit	-	-
Total	**11,752**	**-**

The corporate income tax in amount EUR 11,752 has been calculated by the Company as per requirements of the Law no. 05/L – 029 on corporate income tax which is in force starting from 5 August 2019. As per stipulations of this Law and other clarifications made by the tax authorities the Insurance Companies in Kosovo are subject of premium tax of 5% of written premiums from 1 January 2019 to 4 August 2019. On the other hand 5 August 2019 represents the beginning of a new fiscal period until 31 December 2019, and as such is taxed as 10% of the taxable income for this period.

The new tax legislation, which was enacted or substantively enacted on 5 August 2019, is subject to varying interpretations when being applied to the transactions and activities of the Branch. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Considering the changes in legislation, the Tax Administration of Kosovo (“TAK”) is gradually increasing the scrutiny on the industry, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for six calendar years preceding the year when decisions about the review was made.

The Company has no unrecognized potential deferred tax assets in respect of unused tax loss carried forward. The deferred tax derived from temporary differences due to different accounting and tax base of Insurance contract liabilities, Lease liabilities, Right of use asset, Property and equipment, Intangible assets and Reinsurance asset is deemed marginal by the management of the Branch, hence not recognized.

25. Related party transactions

At the reporting date, the following transactions and balances are made with and are due from Sigal UNIQA Group Austria sh.a (Albania), parent of Sigal UNIQA Group Austria sh.a (Kosovo), and other related parties:

Transactions with related parties	**2019**	**2018**
Key Management Personnel Remuneration (gross amounts)	51,775	54,060
Income from coinsurance with Sigal UNIQA Group Austria sh.a (Kosovo)	26,023	32,254
Expenses from office rent with Sigal UNIQA Group Austria sh.a (Kosovo)	(16,627)	(16,627)
Expenses coinsurance expenses Sigal UNIQA Group Austria sh.a. (Kosovo)	(3,734)	(15,000)
Expenses from vehicle rent with Sigal UNIQA Group Austria sh.a (Albania)	(12,000)	(11,000)
Expenses for management consultancy fees with UNIQA Insurance Group AG	(2,071)	(5,661)
Expenses from Premium ceded to Reinsurer with Sigal UNIQA Group Austria sh.a (Albania)	(11,437)	(1,061)

Balances with related parties		
Due from coinsurance with Sigal UNIQA Group Austria sh.a (Kosovo)	31,065	8,777
Due to UNIQA Insurance Group AG	-	61
Request to UNIQA Insurance Group AG	7,971	-
Due to Sigal UNIQA Group Austria sh.a (Albania)	7,295	1,061
Due to Sigal UNIQA Group Austria sh.a (Kosovo)	980	-

(All amounts in EUR, unless otherwise stated)

26. Commitment and contingencies

i. Legal

In the ordinary course of business, the Company is involved in two legal actions but non of them seems to have legal base to be earned.

ii. Ii Tax commitments

Financial statements and the accounting records of the Company are subject to tax control by the tax authorities and they can cause additional tax liabilities. According the evaluation of the Management of the Company and at the date of these statements no additional terms and conditions exist that may cause contingent liabilities of material significance on such basis.

27. Subsequent events

Management has been following the latest developments in the market caused by the COVID 19 and the government isolation measures. Business continuation procedures were followed by the company, and since the government decided that the financial institutions should be kept open, we developed a plan to work with limited number of staff in the offices and to have most of them working from home. We managed to secure a good renewals rate during this time, and this guarantees us a stable business continuation.
Management also prepared budget planning taking into account the difficulties from the current pandemic situation. This budget shows that we will be deviating from 2020 budget. It is expected that there will be no significant new business during March, April and May. On the other hand most of our client portfolio is related to Credit Life Insurance which are policies linked to a loan which have a high renewal rate every year.

No material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.

SUPPLEMENTARY SCHEDULES

(All amounts in EUR, unless otherwise stated)

i. Solvency Margin

The solvency margin based on CBK rule no. 31 as at 31 December 2019 is composed as follows:

Required solvency margin supplementary insurance
Personal Accident

Premium basis (€)		**31 December 2019**
Written premium net of written off insurance receivables	1	87,977
unearned premium reserve at the beginning of the year	2	15,831
unearned premium reserve at the end of the year	3	13,907
Premium earned ([1] + [2] - [3])	4	89,901
Premium received from reinsurance	5	-
Total premium ([4] + [5])	**6**	**89,901**
sum up to 10 million x 18/100	7	16,182
sum above 10 million x 16/100	8	-
Total premium basis ([7] + [8])	**8**	**16,182**
Reinsurance ratio	9	100%
Required margin on premium basis([8]*[9])	10	**16,182**

Claims basis (€)		**31 December 2019**
Claims paid	11	60
Claims reserves at the beginning of the year	12	-
Claims reserves at the end of the year	13	6,220
Total claims ([11] - [12] + [13])	**14**	**6,279**
claims up to 7 million EUR x 26/100	15	1,633
claims above 7 million EUR x 23/100	16	-
Total ([15] + [16])	**17**	**1,633**
Reinsurance ratio	18	100%
Required margin on claims basis ([17]*[18])	19	1,633

Required solvency margin (€)		**31 December 2019**
Max ([10],[19])	**20**	**16,182**

i. Solvency Margin (continued)

Table 2

Required solvency margin Life (including Personal accidents)			**31 December 2019**
			12.2. a, b
factor (12.2.d)		1	4%
	without profit sharing bonus	2	-
Gross mathematical	profit sharing bonus	3	410,187
provisions	total	4	410,187
	without profit sharing bonus	5	-
	profit sharing bonus	6	410,187
net mathematical provisions	total	7	410,187
ratio (not less than 0.85)		8	100%
First result (12.2.d) (7)* (1)		9	**16,407**
	death with term up to three years	11	143,430,068
	death with term three to five years	12	91,362
	other life insurances	13	726,516
Capital at risk	total ([11]*0.1%+[12]*0.15%+[13]*0.3%)	14	145,747
Capital at risk net of reinsurance		15	92,250,752
ratio (not less than 0,5)		16	64%
Second result (12.2.e)		17	**93,209**
Sum first and second result (9) + (17)		18	**109,617**

		This year
Required solvency margin life (12.2) (18)	19	109,617
Required solvency margin supplementary insurance (12.3) (See table 1)	20	16,182
Required solvency margin capital redemption (12.4)	21	-
Required solvency margin tontine (12.5)	22	-
Required solvency margin unit linked (12.6)	23	-
Required solvency margin (19)+(20)	24	125,799
Guarantee fund (13.1) ([24] / 3)	25	41,933
Guarantee fund (13.2)	26	3,200,000
Guarantee fund (max([25] , [26])	27	3,200,000
Required available solvency margin (max([24] , [27])	**28**	**3,200,000**

(All amounts in EUR, unless otherwise stated)

i. Solvency Margin (continued)

Table 3

Available solvency margin

Section 11.2		**31 December 2019**
Paid-up share capital (a)	1	3,500,000
reserves (b)	2	-
profit brought forward (c)	3	1,134,191
losses brought forward (c)	4	-
profit reserves (d)	5	-
own shares (d)	6	-
Total (1+2+3-4+5-6)	**7**	4,634,191
Guarantee fund	**8**	**3,200,000**
Adequacy (Section 13)	**9**	1,434,191
Other available solvency margin (12.3., 12.4.)	10	-
Total available solvency margin (7+ 10)	**11**	**4,634,191**
Required solvency margin **(See table 2(24))**	12	125,799
Adequacy of solvency margin (11-12)	**13**	**4,508,392**

(All amounts in EUR, unless otherwise stated)

ii. Assets deemed to back insurance liabilities

In accordance with CBK Regulation on investments of assets covering technical and mathematical provision, insurance companies operating in Kosovo may invest in the following categories of assets covering technical reserves:

Assets covering technical reserves	**31 December 2019**	
	Maximum % of gross technical provisions that can be invested as per regulation	**Assets covering technical reserves**
a) Deposits in euro currency in Kosovo licensed banks;	-	1,378,000
b) Treasury bonds, securities and other capital market financial instruments, issued by the Government of the Republic of Kosovo with a maturity	-	-
c) Treasury bonds, securities and other capital market financial instruments, issued by and guaranteed by the central banks of governments of EU member states, with a credit rank not lower than BBB	20% in total 5% Individual	-
d) Real estate (land, buildings), as well as other fixed assets evaluated according to depreciation norms;	30% in total 10% Individual	-
e) Cash at hand, cash in bank and term deposits with a maturity not less than 3 months in banks licensed by the CBK in the Republic of Kosovo;	3%	21,382
f) Reinsurance receivables arising from insurance activities, which are not older than 90 days from when the liability occurred.	Unlimited for => BBB 25% for < BBB	-
g) Reinsurance portion of technical provisions;	Unlimited for => BBB 25% for < BBB	7,490
h) Accrued interest arising from investments in bank deposits and other securities;	5%	35,636
i) Receivables up to 90 days, arising from insurers, agents and brokers, but not more than twenty percent (20%) of the gross unearned premium reserve;	20% of UPR	51,452
j) other fixed assets	5%	19,223
Total assets covering technical and mathematical provisions		**1,513,183**
Technical and mathematical provisions		**712,728**
Coverage in percentage		**212%**