Kompania e Sigurimeve ILLYRIA sh.a.

INDEPENDENT AUDITR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Kompania e Sigurimeve ILLYRIA sh.a.

Opinion

We have audited the financial statements of Kompania e Sigurimeve ILLYRIA sh.a., which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kosova, 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 matter

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on February 23, 2018.

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

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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Arta Limani
Engagement Partner

Kompania e Sigurimeve Illyria Sh.a.

Statement of financial position
As at 31 December 2018 *(in EUR)*

	Note	31 December 2018	31 December 2017
Assets			
Property and equipment	7	3,024,465	3,078,694
Intangible assets	8	51,431	63,546
Total non-current assets		**3,075,896**	**3,142,240**
Investment in Government Securities	9	4,823,215	4,185,932
Receivables from agents and customers	10	537,477	481,945
Other assets	11	332,255	318,791
Reinsurance share of insurance liabilities	12	907,012	667,910
Deferred acquisition costs	13	564,830	453,143
Term deposits, net	14	5,229,760	5,722,441
Cash and cash equivalents	15	811,799	605,277
Total assets		**16,282,242**	**15,577,679**
Equity			
Share capital	16	5,428,040	5,428,040
Revaluation surplus		1,020,305	884,329
Accumulated losses		(2,663,999)	(2,273,200)
Total equity		**3,784,346**	**4,039,169**
Liabilities			
Insurance contract liabilities -Claim reserves	17	8,215,365	7,428,559
Insurance contract liability -Unearned premium	18	2,683,936	2,634,505
Insurance payables	19	553,645	732,993
Other accounts payable	20	323,345	672,781
Borrowings	21	642,000	-
Deferred revenue	22	79,606	69,672
Total liabilities		**12,497,897**	**11,538,510**
Total liabilities and equity		**16,282,242**	**15,577,679**

The financial statements set out on pages 1 to 42 were authorized for issue on 21 February 2019 by:

Shefik Gërbovci	Gianni Sokolič
CFO	CEO

The notes on pages 5 to 42 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2018 *(in EUR)*

	Notes	2018	2017
Gross written premiums	23	9,377,074	8,298,476
Premium tax		(468,854)	(414,924)
Change in the gross provision for unearned premiums	18	(49,431)	(447,098)
Net written premiums		**8,858,788**	**7,436,454**
Premiums ceded to reinsurers'	23	(828,314)	(791,677)
Reinsurers' share of change in the provision for unearned premiums	12	(16,688)	68,659
Net insurance premiums revenue		**8,013,787**	**6,713,436**
Investment income	26	198,161	151,653
Reinsurance recoveries		228,495	1,011,935
Reinsurance commission		151,756	127,374
Other income	26	442,615	303,650
Total revenues		**9,034,815**	**8,308,048**
Losses and loss adjustment expenses		(5,800,115)	(4,473,663)
Interest expense		(17,922)	(7,843)
Policy acquisition costs	24	(994,789)	(808,303)
Share of expenses of KIB	25	(600,046)	(608,055)
Administrative expenses	27	(2,012,742)	(2,186,608)
Total losses and expenses		**(9,425,614)**	**(8,084,472)**
Net profit/ (loss) for the year		**(390,799)**	**223,576**
Other comprehensive income			
Other comprehensive income form Revaluation of AFS		135,976	118,486
Total comprehensive income/(loss) for the year		**(254,823)**	**342,062**

The notes on pages 5 to 42 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2018 *(in EUR)*

	Equity	Accumulated losses	Surplus on revaluation of property	Fair Value reserve of Available for Sale instruments	Total
Balance at 1 January 2017	**5,428,040**	**(2,496,776)**	**765,996**	**(153)**	**3,697,107**
Comprehensive income for the year					
Net income for the period	-	223,576	-	-	**223,576**
Fair value changes for the year	-	-	-	118,486	**118,486**
Total comprehensive income	**-**	**223,576**	**-**	**118,486**	**342,062**
Total transactions with owners reported directly in equity	-	-	-	-	-
Balance at 31 December 2017	**5,428,040**	**(2,273,200)**	**765,996**	**118,333**	**4,039,169**
Comprehensive income for the year					
Net income for the period	-	(390,799)	-	-	**(390,799)**
Fair value changes for the year	-	-	-	135,976	**135,976**
Total comprehensive income	**-**	**(390,799)**	**-**	**135,976**	**(254,823)**
Total transactions with owners reported directly in equity	-	-	-	-	-
Balance at 31 December 2018	**5,428,040**	**(2,663,999)**	**765,996**	**254,309**	**3,784,346**

The notes on pages 5 to 42 are an integral part of these financial statements

Kompania e Sigurimeve Illyria Sh.a.

Statement of cash flow

For the year ended 31 December 2018 *(in EUR)*

	Note	2018	2017
Cash flows from operating activities			
Net (loss)/profit for the period		**(390,799)**	**223,576**
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation and amortization	7,8	85,547	92,715
Non-cash items in P&L, net	28	68,989	17,307
Increase in Insurance contract liability liabilities	17	786,806	86,532
Increase/(Decrease) in unearned premium	18	49,432	447,098
Premium tax expense		468,854	414,924
Interest expenses		17,922	7,843
Loss from disposal of assets		-	501
Investment income	26	(198,161)	(151,653)
Cash flows from operating activities before changes in operating assets and liabilities		**888,590**	**1,138,843**
Changes in operating assets and liabilities			
(Increase)\Decrease in reinsurance share of insurance liabilities	12	(239,102)	(193,530)
Decrease in receivables from agents and customers	10	(99,327)	27,530
(Increase)\Decrease in deferred acquisition costs	13	(111,688)	(25,424)
Decrease\(Increase) in other assets	11	(9,148)	36,796
Increase\(Decrease) in insurance payable	19	(151,641)	140,006
(Decrease)\Increase in other accounts payable	20	(337,663)	(135,170)
Decrease in deferred revenue	21	(9,934)	7,970
Cash flows (used in)/ generated from operations		**(69,913)**	**997,021**
Premium tax paid		(467,247)	(493,179)
Interest paid		(17,922)	(7,843)
Net cash (used in) / generated from operating activities		**(555,082)**	**495,999**
Cash flows from investing activities			
Purchase of fixed assets	7,8	(24,656)	(45,659)
Proceeds from sale of property and equipment	7,8	-	3,136
Increase in term deposits	14	492,681	(400,000)
Interest received		152,886	200,945
(Investment)\redemption in government bonds	9	(501,307)	(202,657)
Net cash generated from / (used in) investing activities		**119,604**	**(444,235)**
Net cash from financing activities			
Borrowings obtained		642,000	-
Net cash generated from investing activities		**642,000**	-
Net Increase in cash and cash equivalents		**206,522**	**51,764**
Cash and cash equivalents at beginning of the year	15	605,277	553,513
Cash and cash equivalents at 31 December	**15**	**811,799**	**605,277**

The notes on pages 5 to 42 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018
(amounts in EUR, unless otherwise stated)

1. REPORTING ENTITY

Kompania e Sigurimeve Illyria sh.a – formerly known as Kompania e Sigurimeve Dukagjini sh.a (hereafter “Illyria” or "the Company") was established on 6 March 2002 under UNMIK regulations for provisional business registration. It operates under a license issued on 13 February 2002 by the Central Bank of Kosovo (“CBK”), to issue compulsory third party liability (“CTPL”) motor vehicle insurance policies within the territory of Kosovo and also voluntary insurance products.

The Company is part of Save Re Group, a Slovenian company.

The Company’s Head office is located at Mother Theresa Boulevard, no. 33, Pristina, Kosovo. At 31 December 2018, the Company employed 143 staff and senior management (2017: 181 staff and senior management).

Number of employees by degree of formal education

	31 December 2018	31 December 2017
Primary and lower secondary education		
Secondary	68	91
Higher	23	28
University	35	44
Masters’ degree and doctorate	17	18
TOTAL	**143**	**181**

2. BASIS OF PREPARATION

a. Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In selecting and applying accounting policies, as well as in pre-paring the financial statements, the Supervisory Board of Illyria Insurance Company aims to provide understandable, relevant, reliable and comparable accounting information.

The financial statements have been prepared based on the going-concern assumption.

Consolidated financial statements of SAVA RE GROUP - as parent Company, can be found at http://www.sava-re.si/en/investors/financial-information/financial-reports/.

b. Basis of measurement

The financial statements have been prepared based on the historic cost basis, except for available-for-sale financial assets and buildings, which are measured at fair value.

c. Functional and presentation currency

The financial statements are presented in Euro (“EUR”), which is the Company’s presentation and functional currency. The functional currency of an entity is the currency of the primary economic environment in which it operates.

2. BASIS OF PREPARATION (CONTINUED)

d. Comparative information

e. For more consistent presentation of transactions, classification of certain items in the comparative financial information has been changed to be consistent with the current year treatment.

f. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and 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, 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 recognised 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

Assumptions and other sources of uncertainty relate to estimates that require management to make difficult, subjective and complex judgements. Below are given major areas that involve management judgement.

Receivables are impaired based on the accounting policy set out in Note 10. Any impairment loss recognised is shown in Note 10.

Financial investments: Classification, recognition, measurement and derecognition, as well as investment impairment and fair value measurement are made based on the accounting policy set out in Note 10. Movements in investments and their classification is shown in Note 9, while the associated income and expenses, and impairment are shown in Note 26.

Technical provisions – calculation and liability adequacy tests pertaining to insurance contracts are shown in Note 17.

g. Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash flows from operating activities have been prepared based on data from the 2016 statement of financial position and income statement, with appropriate adjustments for items that do not constitute cash flows. Cash flows from financing activities have been disclosed based on actual disbursements. Items relating to changes in net operating assets are disclosed in net amounts.

h. Statement of changes in equity

The statement of changes in equity shows movements in individual components of equity in the period.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Intangible assets

Intangible assets, are stated at cost, including any expenses directly attributable to preparing them for their intended use, less accumulated amortisation and any impairment losses.

Amortisation is calculated for each item on a straight-line basis.

Intangible assets are first amortised upon their availability for use. Intangible assets in the Company include computer software, licences pertaining to computer software (their useful life is assumed to be 5 years).

b. Property and equipment

Property and equipment assets, except for building are initially recognised at cost, including cost directly attributable to acquisition of the asset. Subsequently, the cost model is applied: assets are carried at cost, less any accumulated depreciation and any impairment losses.

Property and equipment assets are first depreciated upon their availability for use. Depreciation is calculated for each item separately, on a straight-line basis. Depreciation rates are determined so as to allow writing off the cost of property and equipment assets over their estimated useful life.

Buildings

Buildings are carried at revaluated amount whose fair value is measured reliably, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, every two year.

Depreciation rates of property and equipment assets

Depreciation group	**Rate**
Land	**0 %**
Buildings	**1.3–2 %**
Transportation	**15.5–20 %**
Computer equipment	**33.0 %**
Office and other furniture	**10–12.5 %**
Other equipment	**6.7–20 %**

The Company assesses annually whether there is any indication of impairment. If there is, it starts the process of estimating the recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

If the recoverable amount exceeds or is equal to the carrying amount, the asset is not impaired.

Gains and losses on the disposal of items of property and equipment, calculated as the difference between sales proceeds and carrying amounts, are included in profit or loss. The costs of property and equipment maintenance and repairs are recognised in profit or loss as incurred. Investments in property and equipment assets that increase future economic benefits are recognised in their carrying amount.

c. Financial investments

Financial investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the profit or loss of the company after the date when the financial investment was last valued.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Held-to-maturity financial assets

Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Company can, and intends to, hold to maturity.

e. Available-for-sale financial assets

Available-for-sale financial assets are assets that the Company intends to hold for an indefinite period and are not classified as financial assets at fair value through profit or loss or held to maturity financial assets.

f. Loans and receivables (deposits)

This category includes loans and bank deposits with fixed or determinable payments that are not traded in any active market.

Recognition, measurement and de-recognition

Available-for-sale financial assets and held-to-maturity financial assets are initially measured at fair value plus any transaction costs. Acquisitions and disposals of financial assets, loans and deposits are recognised on the trade date. Gains and losses arising from fair value revaluation of financial assets available for sale are recognised in the statement of comprehensive income, and transferred to the income statement upon disposal or impairment. Held-to-maturity financial assets are measured at amortised cost less any impairment losses. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the assets are transferred and the transfer qualifies for de-recognition in accordance with IAS 39. Loans and receivables (deposits), and held-to-maturity financial assets are measured at amortised cost.

Determination of fair values

The Company measures all financial instruments at fair value, except for deposits, shares not quoted in any regulated market, loans and subordinated debt (assumed that the carrying amount is a reasonable approximation of fair value) and financial instruments held to maturity, which are measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

g. Impairment of investments

A financial asset other than at fair value through profit or loss is impaired and an impairment loss incurred provided there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that such events have an impact on future cash flows that can be reliably estimated. The Group assesses whether there is any objective evidence that individual financial assets are impaired on a three-month basis (when preparing interim and annual reports)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Receivables

Receivables include receivables for premiums from policy-holders or insurers as well as other receivables.

Recognition of receivables
Receivables are initially recognized based on issued policies, invoices or other authentic documents. In financial statements, receivables are reported in net amounts, i.e. net of any allowances made.

Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

i. Impairment of receivables

The Company classifies receivables into Companies with similar credit risk. It assesses receivables in terms of recoverability or impairment, making allowances based on payment history. Individual assessments are carried for all material items of receivables.

In addition to age, the method for accounting for allowances takes into account the phase of the collection procedure, and historical data on the percentage of write-offs made and the ratio of recoverability. Assumptions are reviewed annually.

Recourse receivables are recognized as assets only if, on the basis of a recourse claim, an appropriate legal basis exists (a final order of attachment, a written agreement with or payments by the policyholder or debtor). Recognition of principal amounts to which recourse receivables relate decreases claims paid.

Reinsurance assets
The Company cedes insurance premiums and risk in the normal course of business with net loss potential through the diversification of its risk. Assets and liabilities arising from ceded reinsurance contracts are presented separately as assets and liabilities from related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligation to its policy holders. The Company's reinsurance policy is established in order to limit its potential losses arising from longer exposures to Motor Third Party Liability ("MTPL"), Casco Insurance, Property and Liabilities lines of business. Such reinsurance includes both facultative (property) and treaty basis, excess of loss (property & cargo) or surplus basis and quota share.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk, are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance coverage is provided based on the pattern of the reinsured risk. The unexpended portion of the ceded reinsurance premiums is included in the reinsurance assets. The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provision held in respect of the related insurance contracts. Reinsurance receivables include reinsurance commission in respect of premiums ceded to the reinsurer and recoveries due from reinsurance companies in respect of claims paid. These are classified as receivables and are disclosed separately, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Impairment of receivables (continued)

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliable measurable impact on the amounts that the Company will receive.

Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

j. Deferred acquisition costs

Acquisition costs that are deferred include the part of operating expenses associated with policy underwriting.

The Company discloses under deferred acquisition costs, mostly deferred commissions. These are booked commissions relating to the next financial year and are recognized based on (re) insurance accounts and estimated amounts obtained based on estimated commissions taking into account straight-line amortization.

The Company discloses under deferred acquisition costs, mostly deferred commissions and Tax on Gross written Premium.

k. Term deposits

Term deposits are stated at the amount of principal outstanding and are classified according to their maturities. Term deposits with maturities less than three months are classified as cash equivalents, those with maturities longer than three months are classified as term deposits. Interest is calculated on an accrual basis and interest receivable is reflected in other assets.

l. Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with banks and short-term highly liquid investments with maturities of three months or less when purchased.

m. Equity

Composition:

- share capital comprises the par value of paid-up ordinary shares, expressed in euro;
- capital reserves comprise amounts in excess of the par value of shares;
- retained earnings;
- net profit/loss for the year;

n. Classification of insurance and investment contracts (liabilities)

Contracts under which the Company accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policy holder against a specified uncertain future event (the insured event) which adversely affects the policyholder are classified as insurance contracts. Insurance risk is the risk other than financial risk. Financial risk is the risk of a possible future change in one or more of specified interest rate, security price, commodity price, foreign exchange rate, indexes of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable when the variable is not specific to a party to the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Classification of insurance and investment contracts (liabilities)s (continued)

Contracts under which the transfer of insurance risk to the Company from the policy holder is not significant are classified as investment contracts. All contracts currently written by the Company involve the transfer of significant insurance risk.

General insurance contracts

Insurance liabilities are calculated separately for all insurance products and are composed of premium contingency (unearned), risk contingency (unexpired) and loss contingency (not paid as at the closing date of the financial year).

Insurance liabilities (provisions) represent estimates of future payments for reported and unreported claims. The Company does not discount its insurance liabilities. Any changes in estimates are reflected in results of operations in the period in which estimates are changed. Insurance liabilities estimation is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments.

Technical provisions

Technical provisions are shown gross in the statement of financial position. The share of gross technical provisions for the business ceded by the Company reinsurers is shown in the statement of financial position under the asset item reinsurers' share of technical provisions. Technical provisions for company are approved by company's appointed certified actuary. They must be set at an amount that provides reasonable assurance that liabilities from assumed (re)insurance contracts can be met. The main principles used in calculations are described below.

Unearned premiums

Unearned premiums are the portions of premiums written pertaining to periods after the accounting period. Unearned premiums for primary insurance are calculated on a pro rata temporis basis at insurance policy level. For reinsurance, data are available for calculation on insurance policy level.

Provisions for outstanding claims

Provisions for outstanding claims (claims provision) are established in the amount of expected liabilities for incurred but not settled claims, including loss adjustment expenses. These comprise provisions for both reported claims calculated based on case estimates and claims incurred by not reported (IBNR) calculated using actuarial methods. Future liabilities are generally not discounted.

Provisions for incurred but not reported claims are calculated for the major part of the portfolios of primary insurers using actuarial methods based on paid claims triangles; the result is the total claims provision, and IBNR provision is calculated as the difference between the result of the triangle method and the provision based on case reserves. In classes where the volume of business is not large enough for reliable results from the triangle methods, the calculation is made based on either (i) the product of the expected number of subsequently reported claims and the average amount of subsequently reported claims or (ii) methods based on expected loss ratios. The IBNR provision is established at the amount of the claims provision thus estimated.

The outstanding claims provision is thus established based on statistical data and using actuarial methods; therefore, its calculation also constitutes a liability adequacy test.

Other technical provisions

Other technical provisions only include the provision for unexpired risks derived from a liability adequacy test of unearned premiums, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Classification of insurance and investment contracts (liabilities)s (continued)

Unearned premiums are deferred premiums based on coverage periods. If based on such a calculation, the premium is deemed to be adequate, the unearned premium is also adequate. Company carry out liability adequacy tests for unearned premiums at insurance class level. The calculation of the expected combined ratio in any class of insurance was based on premiums earned, claims incurred, commission expenses and other operating expenses. Where the expected combined ratio so calculated exceeds 100 %, thus revealing a deficiency in the unearned premium, a corresponding provision for unexpired risks within other technical provisions is set aside, in accordance with rules and regulations.

Valuation of insurance contract liability

Insurance contracts, estimates have been made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR).

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position. Note 17 and the respective accounting policy note 3.c (i) contain information about the assumptions and uncertainties related to insurance liabilities.

Technical reserve for border insurance and compensation fund

Technical reserves for border insurance and compensation fund are prepared bases on reports provided to the Company by the Bureau, while independent auditor report for Kosovo Insurance Bureau is not issued yet. Consequently, actual results may differ from these amounts reported in relation with the transactions with Kosovo Insurance Bureau.

o. Liability adequacy test (LAT)

The Company carries out adequacy testing of provisions set aside based on insurance contracts as at the financial statement date for non-life business.

p. Liabilities

Liabilities for trade and other amounts payable are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Company or not.

q. Provision

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. Employee benefits

(i) Compulsory social security contributions

The Company makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The Company's contributions to the pension plan are charged to profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Employee benefits

(ii) Paid annual leave

The Company recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

s. 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 the profit or loss on a straight line basis over the period of the lease.

t. Net premiums earned

Premiums earned are accounted for on an accrual basis, taking into account any increase in economic benefits in the form of cash inflows or increases in assets. The following are disclosed separately: gross insurance premiums, co-insurance, reinsurance and unearned premiums. These items are used to calculate net premiums earned in the income statement. Revenues are recognised based on confirmed insurance accounts or insurance contracts.

Estimates are made on the basis of amounts in insurance contracts, which, according to due dates, have already accrued although the company has yet to receive insurance accounts. Net premiums earned are calculated based on invoiced gross insurance premiums less invoiced premiums ceded, both adjusted for the movement in gross unearned premiums and the change in reinsurers' share of unearned premiums. Premiums earned are estimated based on individual insurance contracts.

u. Net claims incurred

Claims and benefits incurred are accounted for on an accrual basis. Net claims incurred comprise gross claims paid net of recourse receivables. The amount of gross claims incurred is affected by the change in the claims provision, taking into account estimated claims and provisions for outstanding claims. Estimates are made on the basis of amounts in insurance contracts, which, according to due dates, have already accrued although the company has yet to receive insurance accounts.

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occuring during the financial year together with adjustments to prior year claims provisions.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as the changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material.

Whilst the Board of Directors considers that the insurance liabilities for claims and the related reinsurance recoveries are fairly stated, the ultimate liability may differ as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of the insurance liabilities are reflected in the financial statements for the period in which the adjustments are made.

Contingency for claims under legal process

A significant portion of claims are under legal process, and for which the Company has recorded appropriate insurance liabilities based on management's assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Investment income and expenses

The Company records investment income and expenses separately by source of funds, that is separately for the capital fund, the liability fund. The capital fund comprises assets representing shareholders' funds; the liability fund comprises assets supporting technical provisions;
Investment income includes:

- interest income,
- income from changes in fair value and gains on disposal of investments designated at fair value through profit or loss
- other income.
- Investment expenses

The mentioned income and expenses are disclosed depending on how the underlying investments are classified, i.e. investment available for sale, or deposits.

w. Operating expenses

Operating expenses comprise:

- Acquisition costs;
- Change in deferred acquisition costs;

Other operating expenses classified by nature are as follows:

- Depreciation of operating assets,
- Personnel costs including employee salaries,
- Social and pension insurance costs and other personnel costs,
- Payments under contracts for services, other operating expenses relating to services and materials.

x. Income tax

As per Corporate Income Tax Law 05/L -029, insurance companies are required to pay Corporate Income tax as fix percentage of Gross Written Premium on quarterly basis. Premiums returned and retrospective premium adjustments are deducted from gross premiums to arrive at the tax base. Tax rate is 5% of Gross Written Premium.

Tax on profit, as tax on gross premiums written is presented separately as a deduction from the gross premiums written.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

4.1. Standards and interpretations effective in the current period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting period:

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment" -** Classification and Measurement of Share-based Payment Transactions – adopted on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts" -** Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers" -** Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IAS 40 "Investment Property" -** Transfers of Investment Property – adopted on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company's financial statements.

i) Standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to existing standards were in issue, but not yet effective:

- **IFRS 16 "Leases"** – adopted on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments" -** Prepayment Features with Negative Compensation – adopted on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016);

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

i) Standards and interpretations in issue not yet effective (continued)

- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” -** Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures” -** Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Notes to the financial statements for the year ended 31 December 2018

(amounts in EUR, unless otherwise stated)

5. INSURANCE RISK MANAGEMENT

The most important risks that the Company are exposed to are underwriting risks (underwriting process risk, pricing risk, and claim risk), market risks (interest rate risk, equity risk, currency risk, concentration risk and asset-liability mismatch risk), insolvency risk, credit risk and operational risk.

a. Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organizations that are directly subject to the risk. Such risks may relate to property, liability, accident health, financial or other perils that may arise from an insurable event. As a result, the Company is exposed to the uncertainty surrounding the timing and severity of claims under the contract. Through its insurance and investment activities, it is also exposed to market risk.

Insurance risk relates to the uncertainty in the insurance business. The significant components of insurance risk are premium risk and reserve risk. These risks affect the adequacy of insurance premium rates, insurance liability provisions and the capital base.

Premium risk is present when the policy is issued before any insured event has occurred. The risk is 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 incorrectly estimated.

In order to manage its insurance risk, the Company uses the underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralized management of reinsurance and monitoring of emerging issues. Also, several methods are used by the Company to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks.

The Company collects a vast amount of information about policy holders and insured objects. Statistical methods and tools based on data mining techniques are used to analyse or to determine insurance policy risk levels. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

b. Insolvency risk

The Company must have, in accordance with the law, adequate capital in view of the amount and type of (insurance business carried out. The capital must be at all times at least equal to capital requirements calculated on the basis of applicable law.

The Company is deemed to meet capital adequacy requirements if the available solvency margin is higher or equal to the sum of required solvency margins of the controlling company and the corresponding required solvency margin of subsidiaries. The Company met capital adequacy requirements through all of 2018, as it maintained a surplus of the available solvency margin over the required solvency margin.

On 27 of February 2017, the CBK approved new regulation regarding calculation of minimum Capital and Solvency margin based on Law No. 05/ L-045. Appling this regulation, result of company Illyria for capital adequacy as of 31/12/2018 shows that the available capital is for 367,357 EUR above minimum required margin.

5. INSURANCE RISK MANAGEMENT (CONTINUED)

c. Underwriting strategy

The main underwriting strategy of the Company is to seek diversity in order to ensure a balanced portfolio. This strategy is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome.

Underwriting risks are risks related to the main activity pursued by insurance companies, i.e. the assumption of risks from policyholders. Underwriting risks mainly comprise underwriting process risk (insurance and reinsurance), pricing risk, claims risk, retention risk and reserving risk. Some other underwriting risks, e.g. product design risk, economic environment risk and policyholder behaviour risk, may be relevant. However, these risks are not described in detail in this report as we believe that their effects are indirectly included in the main underwriting risks.

The basic purpose of non-life insurance is the assumption of risk from policyholders. In addition to the risks assumed directly by company, the company also assumes risks indirectly from cedants. The company retains a portion of the assumed risks and retrocedes the portion that exceeds its capacity. The company classifies its insurance and reinsurance contracts as insurance and investment contracts within the meaning of IFRS 4. Below is a detailed outline of the risks arising out of insurance contracts, as required under IFRS 4.

Underwriting process risk

The underwriting process risk is the risk of incurring financial losses caused by the company's incorrect selection and approval of risks to be insured. The company mitigates this risk mainly by complying with established and prescribed underwriting procedures (especially with large risks); complying with internal underwriting guidelines and instructions; complying with the authorisation system; having an appropriate pricing and reinsurance policy in place; and conducting actuarial reviews.

Non-life insurance contracts are renewed annually. This allows insurers to amend the conditions and rates to take into account any deterioration in the underwriting results of entire classes of business, and for policyholders in a timely manner.

Pricing risk

Pricing risk is the risk that insurance premiums charged will be insufficient to cover future obligations arising from insurance contracts. The pricing risk within the company is mainly monitored by conducting actuarial analyses of loss ratios and identifying their trends and by making appropriate corrections. When premium rates are determined for new products, the pricing risk can be monitored by prudently modelling loss experience, by comparing against others' experience, and by comparing the actual loss experience against estimates.

The company manages this risk by having an appropriate underwriting process in place and by adjusting applicable commission rates. Likewise in respect of non-proportional insurance treaties, the pricing risk is managed by properly underwriting the risks to be reinsured and by determining adequate insurance premiums. Expected results of insurance contracts entered into on the basis of available information and set prices must be line with target combined ratios; the adequacy of prices is verified based on the results by form and class of insurance.

5. INSURANCE RISK MANAGEMENT (CONTINUED)

c. Underwriting strategy (continued)

Pricing risk (continued)

Premium rates are adequate assuming reasonable actuarial expectations of claims movements or loss ratios and expenses or expense ratios as well as rational behaviour of all market participants.

The Company has no significant concentration of price risk.

d. Terms and conditions of insurance contracts

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 contracts are set out below.

(i) Motor Third Party Liability ("MTPL")

Cars, trucks, and other road vehicles are insured via the MTPL product. MTPL provides protection against physical damage and/or bodily injury resulting from traffic collisions and against liability that could also arise from them. MTPL tariffs, limits of coverage, insurance terms, conditions, requirements, claims registration and settlement, are all regulated by the Central Bank of Kosovo and the Company maintains strict compliance with these statutory requirements at all times. MTPL coverage is sold only in the Kosovo territory and offers coverage for Kosovo and Albania, while related product MTPL plus offer coverage for Macedonia and Serbia".

Management of risk

Insurance risk is managed through pricing, rating, appropriate investment strategy and reinsurance. The Company also has a "reinsurance excess of loss treaty" covering up to the maximum limit.

(ii) Comprehensive Vehicle Insurance("Casco")

Through Casco insurance, the Company indemnifies the insured against damage and losses to their own vehicles resulting from traffic accidents, natural disasters, theft and certain other events. Claims are paid on the basis of returning the client to the position before the accident, not better and not worse. The return for this product arises from the difference between the total premiums paid by the insured less paid claims, intermediaries' commissions and other Company expenses. Insurance is given for a coverage period of one year.

Management of risk

Managing underwriting risk is of outmost importance to the Company. Every request for insurance is checked by the underwriters, photos of the vehicles are made, protection measures such as alarms and garages are verified and the claims history of the insured person is checked. Based on this evidence the Company either issues a quote or rejects the request for insurance. To control the cost of repairs, the Company also has agreements with different auto service repair providers. The Company has a reinsurance treaty covering a portion of the risks.

(iii) Property Insurance

Through its property insurance, the Company aims to return the client to the condition prior to the occurrence of the insured event. The Company indemnifies the insured party for sudden or unforeseen loss and damage or destruction to the insured property due to: fire, lightning, explosion, impact or crashing aircraft, burglary, glass breakage and natural perils (earthquake, storm, hail, etc.). Claims are paid up to the limits and the sums stated on the insurance schedules included in each contract and cannot exceed the total sum insured as per the contract. Property insurance can be used for insuring buildings and other forms of real estate such as premises, and mobile objects such as stock, equipment and machinery. The return for this product arises from the difference of the total premiums paid by the insured less paid claims, intermediaries' commissions and other Company expenses. Insurance is given for a coverage period of one year.

5. INSURANCE RISK MANAGEMENT (CONTINUED)

d. Terms and conditions of insurance contracts (continued)

(iii) Property Insurance (continued)

Management of risk

Managing underwriting risk is of almost importance to the Company. Every request for insurance is checked by underwriters, surveys and photos of the buildings are made, and security measures are verified.
Based on this evidence, the Company issues a quote or rejects the request for insurance. Premiums quoted are dependent on the location, construction, security measures, fire protections and other parameters of the insured property. The Company also has a reinsurance treaty covering all the perils on a proportional basis.

(iv) Health Insurance

The purpose of the Health Insurance policy is to provide reimbursement of expenses resulting from medical attention necessitated through illness, injury, maternity and preventive care and benefits in case of death or permanent disability, resulting from an accident.

The basic scope of coverage includes reimbursement of costs for outpatient general medicine services or hospitalizations, radiological, home nursing and transport costs. All of these expenses are reimbursed on basis of terms and conditions of health insurance products.

The percentage of coverage by the Company is anywhere from 80% up to 100% and the benefits for maternity, dental treatment, hearing aids, psychiatric care, preventive care and income protection have maximum coverage limits. Every health insurance contract contains general exclusions, such as no coverage for preexisting health conditions.

Management of risks

The main risk in health insurance that the Company faces is the risk that the insured will fall ill. The Company manages risk through the underwriting process, exclusion of preexisting health conditions and medical examination prior to acceptance for new clients.

e. Concentration of insurance risk

Properties insured by the Company are exposed to various risks such as, theft, fire, business interruption and weather. Claims occurring as a result of storms, floods, subsidence, fires, and explosions are spread out on a regional basis, which means that the Company has to manage its geographical risk distribution carefully.

In case of an earthquake, it is expected that the Company will have large claims for structural damage to properties and business interruption, while properties are closed for repair.

The total aggregate exposure that the Company is prepared to accept in the various territories for different events, such as natural catastrophes and terrorism losses, are defined by the Company. The current aggregate position is monitored at the time of underwriting a risk.
The Company manages the above mentioned risks through obtaining reinsurance coverage.

Risk assessment is performed periodically by the management and the risk accumulation is observed either for groups of clients or regions. Management does not consider that there is a significant insurance risk concentration in the Company's portfolio as at 31 December 2018.

5. INSURANCE RISK MANAGEMENT (CONTINUED)

e. Concentration of insurance risk (continued)

The table below illustrates the distribution of risk underwritten, using written insurance premium:

	31 December 2018	31 December 2017
Health and travel insurance	45.96%	44.20%
Third party liability motor vehicle insurance ("TPL")	37.04%	40.34%
Comprehensive motor vehicle insurance	7.14%	6.97%
Fire insurance	6.44%	6.39%
Public and professional liability insurance	0.81%	1.01%
Personal accidents	2.35%	0.80%
Tender performance security insurance	0.27%	0.15%
Guarantee	0.00%	0.14%
CARGO insurance	0.00%	0.00%
	100%	**100%**

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

31 December 2018	Gross liabilities	Reinsurance of liabilities	Net Liabilities
Personal accident	68,399	-	68,399
Health	485,435	-	485,435
Land vehicles Casco	442,391	177,153	265,237
Fire insurance	193,170	148,065	45,105
Other damage to property	337,442	261,011	76,431
Motor Liability	6,497,209	-	6,497,209
Suretyship	1,046	1461	7,707
General	9,168	80	966
Assistance	181,105	-	181,105
Total	**8,215,365**	**587,770**	**7,627,594**

31 December 2017	Gross liabilities	Reinsurance of liabilities	Net Liabilities
Personal accident	47,737	-	47,737
Health	268,632	-	268,632
Land vehicles Casco	452,785	172,542	280,242
Fire insurance	128,356	111,073	17,284
Other damage to property	72,027	46,905	25,122
Motor Liability	6,321,692	-	6,321,692
Suretyship	1,046	-	1,046
General	7,860	1,461	6,399
Assistance	128,424	-	128,424
Total	**7,428,559**	**331,981**	**7,096,578**

Claims risk – non-life business

Claims risk is the risk that the number of claims or the average claim amount will be higher than expected. This risk may materialise due to incorrect assessments in the underwriting process, changes in court practice, new types of losses, increased claims awareness, changes in macroeconomic conditions and such like.

5. INSURANCE RISK MANAGEMENT (CONTINUED)

e. Concentration of insurance risk (continued)

The claims risk is managed through designing appropriate policy conditions and tariffs, appropriate underwriting, monitoring risk concentration by site or geographical area and especially through adequate reinsurance and retrocession programmes.

Based on the realised loss events and their small impact on the company's profit, we believe that the risk management measures set out are adequate and we estimate that the claims risk remained on a similar level as in the previous period.

f. Claims Development

The claims development table, listed below, is disclosed in order to put the unpaid claims estimates included in the financial statements into a context, allowing comparison of the development claims provisions with those seen in the previous years. In effect, the tables highlight the Company's ability to provide an estimate of the total value of claims. The estimate is increased or decreased as losses are paid and more information becomes available about the frequency and extent of unpaid claims. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimate of cumulative claims. The information in the table provides a historical review on adequacy of estimates of unpaid claims; users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. Due to inherent uncertainty in the process of determining reserves, it cannot be confirmed that ultimately such balances will be adequate.

Kompania e Sigurimeve Illyria Sh.a.

Notes to the financial statements for the year ended 31 December 2018

(amounts in EUR, unless otherwise stated)

5. INSURANCE RISK MANAGEMENT (CONTINUED)

f. Claims Development (continued)

Accident year	2,002	2,003	2,004	2,005	2,006	2,007	2,008	2,009	2,010	2,011	2,012	2,013	2,014	2,015	2,016	2,017	2,018	Total
At the end of accident year	625,293	887,900	1,114,821	1,489,644	1,658,870	2,034,189	1,885,506	4,490,029	4,933,428	6,131,093	4,539,992	4,323,704	2,820,732	2,681,964	3,160,156	4,509,001	4,879,679	52,166,001
1 year later	680,675	1,012,692	1,232,268	1,794,946	2,214,946	2,500,439	2,378,885	5,218,507	5,826,844	6,131,093	4,841,267	4,797,105	3,304,997	3,134,622	3,721,934	4,871,351		
2 years later	687,682	1,071,492	1,265,331	1,932,972	2,311,569	2,571,779	2,557,166	5,522,969	5,838,742	6,895,082	4,984,591	4,851,703	3,511,999	3,240,321	3,882,347			
3 years later	697,954	1,128,728	1,310,535	1,989,953	2,326,731	2,601,833	2,690,983	5,692,950	5,955,477	7,264,678	5,073,486	4,899,584	3,555,283	3,287,723				
4 years later	699,954	1,217,634	1,340,082	1,952,948	2,439,439	2,655,488	2,787,030	5,795,203	6,023,512	7,331,145	5,119,125	4,889,320	3,653,403					
5 years later	733,439	1,254,254	1,394,481	1,981,101	2,442,244	2,642,358	2,836,412	5,817,842	6,155,164	7,411,534	5,109,926	4,972,646						
6 years later	753,618	1,255,914	1,401,283	1,997,741	2,448,161	2,635,061	2,876,690	5,860,785	6,161,430	7,453,725	5,210,829							
7 years later	764,374	1,250,535	1,430,234	1,998,512	2,468,041	2,657,468	2,890,013	5,874,666	6,174,217	7,464,169								
8 years later	755,861	1,257,415	1,454,659	1,997,731	2,478,448	2,648,945	2,909,640	5,873,474	6,356,246									
9 years later	760,278	1,256,857	1,456,819	1,999,191	2,503,678	2,637,749	2,900,860	5,889,770										
10 years later	760,278	1,270,343	1,456,388	2,002,315	2,503,678	2,637,469	2,900,878											
11 years later	760,703	1,270,343	1,457,785	1,998,815	2,490,246	2,628,496												
12 years later	763,703	1,266,492	1,457,785	1,996,815	2,490,641													
13 years later	763,703	1,266,492	1,457,785	1,993,775														
14 years later	763,703	1,266,492	1,464,322															
15 years later	773,653	1,266,492																
16 years later	771,153																	
Current evaluation	771,153	1,266,492	1,464,322	1,993,775	2,490,641	2,628,496	2,900,878	5,889,770	6,356,246	7,464,169	5,210,829	4,972,646	3,653,403	3,287,723	3,882,347	4,871,351	4,879,679	63,983,920
Cumulative payments	(759,832)	(1,264,827)	(1,463,095)	(1,982,777)	(2,468,462)	(2,612,493)	(2,810,576)	(5,794,500)	(6,257,926)	(6,968,243)	(4,858,285)	(4,681,522)	(3,205,258)	(2,762,613)	(3,167,012)	(4,466,097)	(3,710,718)	(59,234,235)
Reserve for reported but not settled claims	11,321	1,665	1,227	10,998	22,179	16,004	90,302	95,269	98,320	495,925	352,544	291,124	448,145	525,111	715,335	405,254	1,168,961	4,749,685

5. INSURANCE RISK MANAGEMENT (CONTINUED)

f. Claims Development (continued)

(i) Sensitivity analysis

The basic parameters that affect the results of an insurance company are loss ratio, expense ratio and investment yield.

Simulation as at 31 December 2018	Loss after tax	Own capital and subordinated debt	Required capital (Solvency)
Current equity position	(390,497)	3,784,648	3,200,000
Increase in loss ratio (catastrophic event)	(690,497)	3,484,648	3,200,000
Increase in expense ratio (+1.0 %)	(355,796)	3,819,349	3,200,000

The above table shows current results for Loss, Equity and Required capital of the Company as at 31 December 2018.

Simulation is made and basic parameters are changed gradually as follows:

- Simulation of a catastrophic risk (single large claim or numerous small claims), which would increase the claims expense for the current year events in the property portfolio (for the purpose of the example we estimated an increase in claims by EUR 300,000). EUR 300,000 represents the maximum net retention after reinsurance share in claims.
- Simulation of an increase in net expenses by 1.0 %.
  There is a decrease in the results that the Company will achieve and the Company's equity is reduced, while solvency stays unchanged.

(ii) Liability Adequacy Test

Technical provisions are estimated based on current assumptions, and Liability Adequacy Tests ("LAT") are performed to assess the adequacy of carrying amounts. LAT tests are performed for each line of business and no mix of products is allowed. Additional Unexpired Risk Reserve is established for the excess of combined ratio above 100%.

Reserve risk

Reserve risk is the risk that technical provisions are not sufficient to cover the commitments of the insurance business assumed.

When establishing technical provisions, the company takes into account any underserved technical provisions identified on the cash-generating unit level, recognising any identified deficiencies at the company level.

Unearned premiums are established by company on a pro rata basis at insurance policy level. In addition to unearned premiums, the company establishes also provisions for unexpired risks for those classes of insurance with a combined ratio (loss ratio + expense ratio) of more than 100 %.

Due to the difference in reserving methodologies used in insurance business, the run-off analysis was made.

Some cash-generating units are yet to gain sufficient reliable multi-year historical data relating to the claims provision by accident year, especially for the IBNR provision. Moreover, portfolios in certain classes of insurance are so small that the calculation of claims provisions based on triangles does not reflect typical statistical trends.

5. INSURANCE RISK MANAGEMENT (CONTINUED)

f. Claims Development (continued)

Reserve risk (Continued)

For this reason, at year-end, data on previous years' claims provisions were compiled (partly estimated) and aligned with subsequent estimates of claims provisions for the same (original) future liabilities.

Financial instruments transactions may result in the fact that the Company bears additional financial risks. They include market risk, credit risk, liquidity risk and reinsurance risk. Each of these financial risks is described below.

6. FINANCIAL RISK MANAGEMENT

a. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

Determination of fair values
The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments, if any, valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

Level 3: Valuation techniques using significant unobservable inputs. In addition, in this level are included investments in subsidiaries, associates and other equity shares stated at cost, that do not have reliable market value, if any.
Below is an analysis of financial instruments measured at or given disclosure of fair value according to valuation methods used in 2018 and 2017:

31 December 2018	Level 1:	Level 2:	Level 3:	Total
Term deposits, net	-	-	5,229,760	5,229,760
Investment in Government Securities	-	-	4,823,215	4,823,215
Land, buildings and Premises	-	-	2,967,684	2,967,684
Total financial assets	**-**	**-**	**13,020,659**	**13,020,659**

31 December 2017	Level 1:	Level 2:	Level 3:	Total
Term deposits, net	-	5,722,441	-	5,722,441
Investment in Government Securities	-	-	4,185,932	4,185,932
Land, buildings and Premises	-	-	3,007,385	3,007,385
Total financial assets	**-**	**5,722,441**	**7,193,317**	**12,915,758**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

a. Market Risk (continued)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company transactions are carried out in EUR and there are no exposure to foreign exchange risk The Company undertakes transactions mainly in EUR to satisfy regulatory and self-imposed capital requirements. Currency risk in the investment portfolio is managed using assets/liabilities matching principles.

Asset/liability matching

The Company actively manages its assets using an approach that balances quality, diversification, asset/liability matching, liquidity and investment return. The goal of the investment process is to optimise risk-adjusted investment income, ensuring that assets and liabilities are managed on a cash flow and duration basis.

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.

31 December 2018	Note	Up to 6 months	6 months to 1 year	Over 1 year	Non-interest bearing	Total
Cash equivalents	15	811,799			-	**811,799**
Term deposits, net	14	-	5,085,907	143,853	-	**5,229,760**
Investment in government bonds	9	-	736,782	4,086,433	-	**4,823,215**
Receivables agents and customers	10	-	-	-	537,477	**537,477**
Other assets	11	-	-	-	332,255	**332,255**
Total		**811,799**	**5,822,689**	**4,230,286**	**869,732**	**11,734,506**
Net exposure		**811,799**	**11,645,378**	**8,460,572**	**1,739,464**	**22,657,213**

31 December 2017	Note	Up to 6 months	6 months to 1 year	Over 1 year	Non-interest bearing	Total
Cash equivalents	15	-	-	-	605,277	**605,277**
Term deposits, net	14	2,354,684	2,917,720	450,037	-	**5,722,441**
Investment in government bonds	9	2,868,921	198,523	1,118,488	-	**4,185,932**
Receivables agents and customers	10	-	-	-	481,945	**481,945**
Other assets	11	-	-	-	318,791	**318,791**
Total		**5,223,605**	**3,116,243**	**1,568,525**	**1,406,013**	**11,314,386**
Net exposure		**5,223,605**	**3,116,243**	**1,568,525**	**1,406,013**	**11,314,386**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk

In the normal course of its business as premiums are received, these funds are invested to pay for future policy holder obligations. The Company is exposed to credit risk on its cash at bank, debt securities held to maturity, term deposits, receivables from agents and customers and reinsurance counterparties.

Maximum Credit risk

The Company manages its exposure to credit risk on a regular basis by closely monitoring its exposure:

31 December 2018	Neither past due not impaired	Past due but not impaired	Impaired	Provision	Total
Cash equivalents	811,799	-	-	-	**811,799**
Term deposits, net	5,229,760	-	-	-	**5,229,760**
Investment in government bonds	4,823,215	-	-	-	**4,823,215**
Receivables from agents and customers	312,337	123,570	292,061	(190,491)	**537,477**
Other assets	332,255	-	-	-	**332,255**
Total	**11,509,366**	**123,570**	**292,061**	**(190,491)**	**11,734,506**

31 December 2017	Neither past due not impaired	Past due but not impaired	Impaired	Provision	Total
Cash equivalents	605,277	-	-	-	**605,277**
Term deposits, net	5,722,441	-	-	-	**5,722,441**
Investment in government bonds	4,185,932	-	-	-	**4,185,932**
Receivables from agents and customers	318,869	-	737,993	(574,917)	**481,945**
Other assets	318,791	-	-	-	**318,791**
Total	**11,151,310**	-	**737,993**	**(574,917)**	**11,314,386**

c. Liquidity risk

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 at short notice, in excess of normal cash requirements, it may face difficulty to obtain attractive prices. The Company monitors its liquidity on a daily basis in order to manage its obligations when they fall due.

Maturity structure

The Company has to meet potential daily calls on its cash resources, notably from claims arising on its insurance contracts. This gives rise to the risk that cash will not be available to settle liabilities when due at a reasonable cost. The Company manages this risk by setting minimum limits on the proportion of maturing assets that will be available to settle these liabilities.

The maturity structure of the financial assets of the Company presented below is based on the remaining term to maturity:

Notes to the financial statements for the year ended 31 December 2018

(amounts in EUR, unless otherwise stated)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Liquidity risk (continued)

31 December 2018	Note	Up to 3 months	From 3 to 6 months	Up to 1 year	Over 1 year	No maturity	Total
Cash equivalents	15	491,780	-	-	-	320,019	**811,799**
Term deposits, net	14	1,623,057	1,514,442	1,948,408	143,853	-	**5,229,760**
Investment in government bonds	9	-	736,782	-	4,086,433	-	**4,823,215**
Receivables from agents and customers	10	312,337	134,350	281,281	-	-	**727,968**
Other assets	11	-	-	332,255	-	-	**332,255**
Total		**2,427,174**	**2,385,574**	**2,561,944**	**4,230,286**	**320,019**	**11,924,997**

31 December 2017	Note	Up to 3 months	From 3 to 6 months	Up to 1 year	Over 1 year	No maturity	Total
Cash equivalents	15	285,277	-	-	-	320,000	**605,277**
Term deposits, net	14	1,552,396	655,859	2,917,720	450,037	146,429	**5,722,441**
Investment in government bonds	9	249,796	846,953	198,523	-	2,890,660	**4,185,932**
Receivables from agents and customers	10	318,869	93,852	69,224	-	-	**481,945**
Other assets	11	-	-	318,791	-	-	**318,791**
Total		**2,406,338**	**1,596,664**	**3,504,258**	**450,037**	**3,357,089**	**11,314,386**

Financial items under no maturity are items under guarantee fund.

The maturity structure of the liabilities and insurance technical reserves of the Company presented below is based on residual term to maturity.

The weighted average duration of the claims reserve of the Company is 2.62 years.

31 December 2018	Note	Up to 1 year	1 – 3 years	3 – 5 years	5 – 11 years	Total
Insurance liabilities for losses and loss adjustment expenses	17	3,505,798	2,032,800	1,228,425	1,448,342	8,215,365
Insurance accounts payable	19	553,645	-	-	-	553,645
Other accounts payable	20	362,825	-	-	-	362,825
Total		**4,422,268**	**2,032,800**	**1,228,425**	**1,448,342**	**9,131,835**

31 December 2017	Note	Up to 1 year	1 – 3 years	3 – 5 years	5 – 11 years	Total
Insurance liabilities for losses and loss adjustment expenses	17	2,654,796	2,272,722	1,272,802	1,228,239	**7,428,559**
Insurance accounts payable	19	732,993	-	-	-	**732,993**
Other accounts payable	20	672,781	-	-	-	**672,781**
Total		**4,060,570**	**2,272,722**	**1,272,802**	**1,228,239**	**8,834,333**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. 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 in Kosovo. 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.

e. Disclosures and estimation of fair values

Fair value estimates, if any, are based on existing financial instruments. Management of the Company believes that fair value of existing financial instruments is not materially different from the carrying amount due to short term nature.

Notes to the financial statements for the year ended 31 December 2018

(amounts in EUR, unless otherwise stated)

7. PROPERTY AND EQUIPMENT

	Land, buildings and Premises	Computers and related equipment	Furniture, fixtures and other equipment	Vehicles	Total
Cost or valuation					
Balance at 1 January 2017	**3,250,000**	**16,264**	**341,920**	**128,120**	**3,736,304**
Additions	-	4,286	17,397	-	21,683
Disposals	-	(90)	(29,455)	(12,138)	(41,683)
Balance at 31 December 2017	**3,250,000**	**20,460**	**329,862**	**115,982**	**3,716,304**
Additions	-	9,068	6,317	-	**15,385**
Disposals/write off	-	-	-	(60,690)	**(60,690)**
Balance at 31 December 2018	**3,250,000**	**29,528**	**336,179**	**55,292**	**3,670,999**
Accumulated depreciation					
Balance at 1 January 2017	**(202,914)**	**(11,592)**	**(315,234)**	**(74,037)**	**(603,777)**
Charge for the year	(39,701)	(4,028)	(13,524)	(14,625)	(71,878)
Disposals	-	86	28,902	9,057	38,045
Balance at 31 December 2017	**(242,615)**	**(15,534)**	**(299,856)**	**(79,605)**	**(637,610)**
Charge for the year	(39,701)	(3,714)	(10,842)	(9,904)	(64,161)
Disposals/write off	-	-	-	55,236	55,236
Balance at 31 December 2018	**(282,316)**	**(19,248)**	**(310,698)**	**(34,273)**	**(646,535)**
Carrying amounts					
Balance at 1 January 2017	**3,047,086**	**4,672**	**26,686**	**54,083**	**3,132,527**
Balance at 31 December 2017	**3,007,385**	**4,926**	**30,006**	**36,377**	**3,078,694**
Balance at 31 December 2018	**2,967,684**	**10,280**	**25,481**	**21,019**	**3,024,465**

As at December 31, 2018 and 2017, the Company has not used fixed assets as a guarantee for any loan or commitment.

8. INTANGIBLE ASSETS

Cost	Software
Balance at 1 January 2017	**231,183**
Additions	23,976
Balance at 31 December 2017	**255,159**
Additions	9,271
Balance at 31 December 2018	**264,430**
Accumulated amortization	
Balance at 1 January 2017	**(170,777)**
Additions	(20,836)
Balance at 31 December 2017	**(191,613)**
Additions	(21,386)
Balance at 31 December 2018	**(212,999)**
Carrying amounts	
Balance at 1 January 2017	**60,406**
Balance at 31 December 2017	**63,546**
Balance at 31 December 2018	**51,431**

9. INVESTMENTS IN GOVERNMENT SECURITIES

	31 December 2018	31 December 2017
KS Government Bonds – Available for Sale	4,823,215	4,185,932
Total	**4,823,215**	**4,185,932**

The Kosova government treasury discount bills with maturities twelve months have yields ranging from 0.38 % – 0.70 %. The Kosova government bonds with maturities ranging from 3 years to 10 years have yields ranging from 3 % - 6%.

Financial Investments

	31 December 2018	31 December 2017
Securities Available for Sale	**4,823,215**	**4,185,932**
Bonds of Republic of Kosova	4,086,432	2,890,660
T-bills of Republic of Kosova	736,782	1,295,272
Deposits with banks	**5,229,760**	**5,722,441**
Long term deposits	143,853	450,037
Short term deposits	5,085,908	5,272,404
Total Financial Investments	**10,052,975**	**9,908,373**

The Government Debt Securities have been designated as managed on fair value bases, Level 3 (please see Note 6). Fair Value basis valuation has resulted in a charge of EUR 132,456 (2017: EUR 118,333), for the year ending on 31 December 2018.

Income of EUR 107,786 (2017: EUR 82,706) was earned from Government Debt Securities. Securities are held in custody with NLB Prishtina.

10. RECEIVABLES FROM AGENTS AND CUSTOMERS

Receivables arising out of primary insurance business decreased year-on-year. Collection statistics and the composition of receivables have been improving over the years with ever younger receivables being subject to collection procedures.

	31 December 2018			31 December 2017		
	Gross amount	Allowance	Net amount	Gross amount	Allowance	Net amount
Receivables from policyholders	727,968	(190,491)	537,477	950,747	(468,802)	481,945
Receivables from insurance agents	-	-	-	106,115	(106,115)	-
Receivables arising out of primary insurance business	**727,968**	**(190,491)**	**537,477**	**1,056,862**	**(574,917)**	**481,945**

The movement of impairment allowance is as follows:

	31 December 2018	31 December 2017
Opening balance 1 January	574,917	728,783
Additions/(Release) (Note 25, 26)	30,755	(39,339)
Write-off of fully impaired receivables	(415,181)	(114,527)
As of 31 December	**190,491**	**574,917**

As at 31 December, the aging analysis of trade receivables Gross amount is as follows:

31 December 2018	Not past due	Past due 0-30	Past due 30-60	Past due 60-90	Past due 90-180	More than 180 days	Total
Receivables due from policyholders	138,781	173,556	14,564	44,364	75,422	281,281	**727,968**
Receivables from insurance brokers	-	-	-	-	-	-	-
Total	**138,781**	**173,556**	**14,564**	**44,364**	**75,422**	**281,281**	**727,968**

31 December 2017	Not past due	Past due 0-30	Past due 30-60	Past due 60-90	Past due 90-180	More than 180 days	Total
Receivables due from policyholders	2,338	253,029	52,109	52,171	60,600	530,500	**950,747**
Receivables from insurance brokers	-	-	-	-	-	106,115	**106,115**
Total	**2,338**	**253,029**	**52,109**	**52,171**	**60,600**	**636,615**	**1,056,862**

Notes to the financial statements for the year ended 31 December 2018
(amounts in EUR, unless otherwise stated)

11. OTHER ASSETS

Other assets at year-end comprised of:

	31 December 2018	31 December 2017
Deposit for green card	125,000	125,000
Receivable from reinsurer (11 a)	98,299	81,146
Receivables for claims in regress, net (11 b)	30,595	25,447
Receivables from Corresponding claims	19,415	-
Advances to suppliers for goods and services	31,082	28,110
Advances to employees	2,194	6,082
VAT Receivable	4,493	48,365
Other receivables	21,175	4,641
Total	**332,255**	**318,791**

Other assets comprise other short-term accrued income, accrued interest, advances made to employees and suppliers. Deposit for green card is guarantee with Kosovo Insurance Bureau related to MoU (Memorandum of Understanding) reciprocal recognition of vehicle insurance between the Republic of Kosova and Serbia and processing and payment of claims as a result of the accidents caused by vehicles in the jurisdiction of each party, signed on June 23, 2015 in Brussels. The deposit doesn't bear interest.

11a. RECEIVABLE FROM REINSURER

	31 December 2018	31 December2017
Receivable from reinsurer for commission	39,400	36,495
Receivable from reinsurer for claims	58,899	44,651
Total	**98,299**	**81,146**

11b. RECEIVABLES FOR REGRESS CLAIMS

	31 December 2018	31 December 2017
Regress claim receivables at the beginning	25,447	29,897
Additions	6,090	82,444
Payments collected	-	(86,894)
Provision charge during the year	(942)	-
Total	**30,595**	**25,447**

12. REINSURER'S SHARE OF INSURANCE LIABILITIES

At year end, the reinsurer's share of insurance liabilities is as follows:

	31 December 2018	Change	31 December 2017
Reinsurer's share of insurance liability on unearned premium			
Motor vehicle (MTPL and CASCO)	130,822	(49,631)	180,453
Other	188,419	32,943	155,476
	319,241	**(16,688)**	**335,929**
Reinsurance share of insurance liability on claims reserves	587,771	255,790	331,981
Total	**907,012**	**239,102**	**667,910**

13. DEFERRED ACQUISITION COSTS

Deferred acquisition costs comprise short-term deferred policy acquisition costs that are gradually taken to acquisition costs in 2018.

	31 December 2018	31 December 2017
Premium tax	132,720	129,080
Commission and operators salaries	396,276	289,211
Fee of CBK	35,834	34,852
Total	**564,830**	**453,143**

The movement in deferred acquisition costs during the year is as follows:

	31 December 2018	31 December 2017
Deferred acquisition costs beginning of the year	453,143	427,719
Acquisition costs paid	1,106,476	833,727
Acquisition costs expense incurred	(994,789)	(808,303)
Total	**564,830**	**453,143**

14. TERM DEPOSITS

The breakdown of term deposits with maturities exceeding three months, but less than one year by bank is as follows:

	31 December 2018	31 December 2017
NLB	1,843,400	841,400
BKT	1,300,000	850,000
Zirat Bank	600,000	750,000
Banka Ekonomike	542,000	464,360
ProCredit	500,000	-
Banka per Biznes	400,000	714,212
TEB	-	870,000
Is Bank	-	1,200,000
Accrued Interest	44,360	32,469
Total	**5,229,760**	**5,722,441**

Term deposits are maintained with domestic financial institutions. Interest rates on term deposits, during the fiscal year 2018 were from 0.7 % to 2.10 % per annum (2017: 0.5% to 2% per annum).

Investment income of EUR 198,161 consist of: interest income EUR 90,375 earned from current account and deposits with banks, and the rest is interest income from government securities (see note 9). Withholding tax of 10% (2017: 10%) is applied to interest income on term deposit and is withheld by the banks upon payment of interest to the Company.

15. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	133	59
Cash equivalent at banks	811,666	605,218
Total	**811,799**	**605,277**

Cash equivalents at banks include current accounts at Raiffeisen Bank, ProCredit Bank, TEB, Nova Lubjanska Banka Pristina, Banka Private per Biznes, Banka Kombetare Tregtare, Central Bank of Kosovo, Banka Ekonomike, IS Bank and Ziraat Bank.

16. SHARE CAPITAL

The authorized, issued and fully paid-up share capital of the Company is EUR 3,228,050 and comprises of 107,602 ordinary shares of EUR 30 each. Sava Re is 100% owner of the Company.

To respond to the CBK Regulation of Assets as Security, Capital Adequacy, Financial Reporting, Risk Management, Investment and Liquidation, the parent Company infused an additional EUR 2,199,990 comprised of an additional 73,333 shares of EUR 30 each on 24 February 2012, which resolved the noncompliance by reinstating the net equity amount to above the minimum required EUR 3,200,000.

Share Capital

Shareholder	Number of Shares	Percentage (%)
PozavarovalnicaSavad.d.,Ljubljana	5,428,040	100%
Total	**5,428,040**	**100%**

17. INSURANCE CONTRACT LIABILITIES – CLAIM RESERVES

Movement in gross technical provisions policyholders who bear the investment risk

	31 December 2018	31 December 2017
As at 1 January		
Gross insurance liabilities for losses and loss adjustment expenses	7,428,559	7,342,027
Reinsurance recoverable	(331,981)	(207,110)
Net insurance liabilities for losses and loss adjustment expenses	**7,096,578**	**7,134,917**
Losses and loss adjustment expenses incurred	5,800,116	4,473,663
Losses and loss adjustment expenses paid	(5,269,099)	(4,512,002)
Net insurance liabilities for losses and loss adjustment expenses as at 31 December	**7,627,595**	**7,096,578**
Reinsurance recoverable	587,770	331,981
Gross insurance liabilities for losses and loss adjustment expenses	**8,215,365**	**7,428,559**

A significant measure of experience and judgement is involved in assessing outstanding insurance liabilities, the ultimate costs of which cannot be assessed with certainty as at the reporting date. The insurance liabilities for losses and loss adjustment expenses are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Calculation of the gross provision for unexpired risks by class of insurance

Primary insurance **Provision for unexpired risks**	**31-Dec-18**	**31-Dec-17**
Health	16,457	4,378
Land vehicles Casco	8,248	48,529
Other	4,835	
Total	**29,540**	**52,907**

18. INSURANCE CONTRACT LIABILITY - UNEARNED PREMIUM

Unearned premium reserve by product is comprised as follows:

Product	31 December 2018	Change for the period	31 December 2017
Health	59,354	4,882	54,472
Motor vehicle	1,858,016	(39,074)	1,897,090
Other	737,026	106,991	630,036
Total	**2,654,396**	**72,799**	**2,581,598**

Unexpired risk reserve by product is comprised as follows:

Product	31-Dec-18	Change for the period	31-Dec-17
Health	16,457	12,079	4,378
Motor Vehicle	8,248	(40,281)	48,529
Other	4,835	4,835	-
Total	**29,540**	**(23,367)**	**52,907**

19. INSURANCE PAYABLE

Insurance accounts payable comprise:

	31 December 2018	31 December 2017
Reinsurance payable	276,318	398,847
Premium tax payable	111,011	109,404
Payable to Compensation Fund	70,188	-
Underwriting and policy acquisition costs payable	65,411	70,762
Payable to CBK	30,717	29,656
Provision for Red Cross (Note 26)	-	124,324
Total	**553,645**	**732,993**

20. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise:

	31 December 2018	31 December 2017
Liabilities due to policyholders	177,930	81,698
Payable to suppliers	53,041	199,527
VAT payable	51,640	121,993
Tax on salaries payable	17,480	38,545
Pension contribution payable	14,466	55,042
VAT provision	-	156,558
Other payables	8,788	19,418
Total	**323,345**	**672,781**

21. BORROWINGS

During 2018, the Company has obtained a loan from a related party in the amount of EUR 640,000. The loan has a term of four years.

22. DEFERRED REVENUE

	31 December 2018	31 December 2017
Unearned reinsurance commission	79,606	69,672
Total	**79,606**	**69,672**

Unearned reinsurance commission relates to commissions for unearned premiums at the reporting date.

23. GROSS WRITTEN PREMIUMS

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

31 December 2018	Gross premiums written	Reinsurers' and co-insurers' shares (-)	Change in gross UPR (+/-)	Change in UPR for the reinsurance and co-insurance part (+/-)	Net premiums earned
Personal accident	219,960	-	(1,191)	-	218,769
Health	3,504,181	-	(16,960)	-	3,487,221
Land vehicles Casco	669,930	(250,481)	3,226	7,714	430,389
Fire and natural forces	418,080	(324,908)	(25,138)	13,867	81,901
Other damage to property	185,933	(144,160)	(4,332)	1,967	39,408
Motor liability	3,473,033	(36,750)	76,129	-	3,512,412
General liability	75,496	(56,420)	31,646	(30,902)	19,821
Suretyship	25,234	(15,595)	(1,796)	(9,333)	-1,490
Assistance	805,227	-	(111,015)	-	694,212
Total	**9,377,074**	**(828,314)**	**(49,431)**	**(16,687)**	**8,482,643**

31 December 2017	Gross premiums written	Reinsurers' and co-insurers' shares (-)	Change in gross UPR (+/-)	Change in UPR for the reinsurance and co-insurance part (+/-)	Net premiums earned
Personal accident	66,641	-	13,984	-	80,625
Health	3,028,353	-	(20,648)	-	3,007,705
Land vehicles Casco	578,480	(226,955)	(78,680)	1,915	274,760
Goods in transit					
Fire and natural forces	365,424	(274,796)	(21,126)	13,404	82,906
Other damage to property	165,105	(127,886)	(15,683)	9,372	30,908
Motor liability	3,347,596	(72,600)	(168,556)	(1,942)	3,104,498
General liability	83,692	(74,565)	(43,686)	36,492	1,933
Suretyship	23,832	(14,875)	(9,368)	9,418	9,007
Assistance	639,353	-	(103,335)	-	536,018
Total	**8,298,476**	**(791,677)**	**(447,098)**	**68,659**	**7,128,360**

24. POLICY ACQUISITION COSTS

Policy acquisition costs for the year are comprised of acquisition commissions. The Company contracted brokers, WVP, Raiffeissen Insurance Broker Kosovo, Shield Broker, Risk Broker, Fersig ect, in order to sell insurance policies on the Company's behalf.

25. SHARE OF EXPENSES FROM KOSOVO INSURANCE BUREAU ("KIB")

	31-Dec-18	31-Dec-17
Claims - Compensation Fund for Uninsured Vehicles	299,962	376,920
Claims - Border Insurance	155,358	91,042
Administrative Expenses	144,727	140,092
TOTAL Expenses for Kosovo Insurance Bureau - KIB	**600,046**	**608,055**

The Kosovo insurance Bureau ("KIB") administers the system to sell compulsory third party liability motor vehicle insurance ("CTPL") at the border of the Territory of Kosovo (the "pool") to drivers of foreign registered vehicles not in possession of such insurance, on behalf of all insurance companies licensed by the Central Bank of Kosovo ("CBK") to sell TPL insurance within the Territory of Kosovo.

KIB remits to each insurance company monthly its share of the gross premiums received (including VAT and premiums tax, which are then included in the insurance companies' own tax returns). Each insurance company is required to pay to KIB for the claims and other administrative costs of the pool and the membership activities of KIB as per KIB calculation reports.

KIB administers Compensation Fund for uninsured vehicles. KIB compensates/indemnifies the victims of uninsured accidents, insurance companies according to MTPL law finance Compensation Fund

26. OTHER INCOME

31 December 2018	Interest income	Release of Impairment	Other income	Total
Available-for-sale	107,786	-	-	**107,786**
Deposits	90,375	-	-	**90,375**
Release of impairment Receivables	-	-	-	
Other income	-	-	442,615	**442,615**
Total	**198,161**	**-**	**442,615**	**640,776**

31 December 2017	Interest income	Release of Impairment	Other income	Total
Available-for-sale	82,705	-	-	**82,705**
Deposits	68,948	-	-	**68,948**
Release of impairment Receivables	-	39,339	-	**39,339**
Other income	-	-	264,311	**264,311**
Total	**151,653**	**39,339**	**264,311**	**455,303**

Other incomes in the amount of EUR 442, 615 are comprised, mainly by the following:

- The Company in 2012 made a provision for a contingent liability for VAT. In 2018, all the legal possibilities of these contingencies to materialize ceased to exit. Thus, company decided to release these contingencies in the amount of EUR 67,405.
- The Company identified during 2018 liabilities that were incorrectly carried forward from previous years. For these balances, the Company was not liable to any party, released them in the amount of EUR 148,835.

26. OTHER INCOME (CONTINUED)

- The Company released provisions for Red Cross, recognized in the previous year, in the amount of EUR 124,324. In previous year Company decided to make a provision, for a potential loss that the company may face from the law suit brought by Red Cross Kosovo. Red Cross of Kosovo is suing the company for the payment of 1% of Gross Written Premium on Motor Third Party Liability Insurance, which, allegedly, is mandatory as per Law on Red Cross 03/L-179 (article 14.1.7). Red Cross is suing company for EUR 248,648. The matter is in constitutional court. Company acquired external legal opinion on this matter from two different sources. The legal opinion(s) among other elaborations, come to the following conclusions:
  - Article 14, paragraph 1, subparagraph 7 is in violation with:
  - Article 46 of the Constitution of Republic of Kosovo
  - Article 1 of the European Convention on Human Rights
  - Legal practices of European Court of Human Rights
  - Article 17 of Universal Declaration of Human Rights
  - Law on foreign investments in Kosovo 04/L-220

Based on the above stated arguments, company is convinced that there are no legal obligations for the company for payment of 1% of company's revenue, deriving from Article 14-1-7 of the Red Cross Law.

27. ADMINISTRATIVE EXPENSES

Administrative expenses for the year are comprised as follows:

	31 December 2018	31 December 2017
Staff costs	1,173,032	1,103,936
Rent	158,045	173,557
CBK supervision charges	126,590	123,167
Depreciation and amortization	85,547	92,715
Maintenance expenses	64,457	92,869
Office expenses	53,722	70,509
Advertising costs	42,608	15,501
Bad debts expense	36,636	-
Utilities	35,304	57,983
Telecommunication expenses	31,480	34,803
Training expenses	28,891	69,828
Fuel expenses	23,954	18,644
Bank charges	10,104	10,874
Representation expenses	10,087	11,692
Sponsorship and donations	1,501	8,043
Red Cross provision	-	124,324
Premiums reward	-	65,415
Loss from disposal of fixed asset	-	557
Write off of net accounts receivable	-	73,670
Other expenses	130,784	38,521
Total	**2,012,742**	**2,186,608**

Notes to the financial statements for the year ended 31 December 2018
(amounts in EUR, unless otherwise stated)

28. NON-CASH ITEMS IN P&L

Following table presents Non-cash items in P&L presented in Statement of Cash Flow:

	31-Dec-18	31-Dec-17
Write off of accounts receivable	316,000	73,670
Premiums reward	24,900	65,415
Impairment of Receivables	36,636	21,237
Red Cross provision	-	124,324
Other cash expenses	101,969	-
Total non-cash Expenses	**479,505**	**284,646**
Release of VAT provision	(137,357)	(227,998)
Release of Other Provisions	(148,835)	(39,339)
Release Red Cross provision	(124,324)	
Total non-cash Income	**(410,516)**	**(267,337)**
Net amount	**68,989**	**17,309**

29. COMMITMENT AND CONTINGENCIES

(i) Legal

The Company is involved in routine legal proceedings in the ordinary course of business. There are no significant outstanding lawsuits as at 31 December 2018, with the exception of the following:

On 27 December 2010 the Kosovo Competition Agency notified the Company of their decision to impose a penalty of 100,000 EUR against the Company for a "Hidden Agreement between the insurance companies in Kosovo for fixing premium prices". Such penalty was also imposed against several other insurance companies in Kosovo, who were also allegedly part of this agreement.

On 21 January 2011, the Company has initiated a lawsuit in The Kosovo Supreme Court against Kosovo Competition Agency's penalty, as it considers it to be an unlawful decision. The case is still ongoing and management is unable to determine the outcome and as such no amount has been recorded or accrued as of 31 December 2018.

The Company in ordinary course of its business is involved in 629 claims and legal actions. Other than provision recorded in these financial statements within the claim reserves, the Company believes that there will be no additional provision required against the cases pending in court.

	Amount of Provision	Number of Cases
Claims outstanding as of 31 December 2017	**2,170,942**	**613**
Claims outstanding as of 31 December 2018	**2,441,960**	**629**
As of 31 December 2017	**2,170,942**	**613**
Addition	1,311,709	245
Solved cases	1,040,692	229
As of 31 December 2018	**2,441,959**	**629**

29. COMMITMENT AND CONTINGENCIES (CONTINUED)

(ii) Lease commitments

Operating lease

The Company has entered into operating lease commitments for its rented premises. Such minimum commitments as at 31 December 2018 and 2017 are composed as follows:

	31 December 2018	31 December 2017
Not later than 1 year	28,080	25,512
Later than 1 year	62,900	45,180
Total	**90,980**	**70,692**

30. RELATED PARTY TRANSACTIONS

The Company has related party relationships with its shareholders, board of directors, and management. The following are the Company's related parties and the respective relationships:

- Sava Re – 100% Shareholder;
- Illyria Life Sh.a. – Subsidiary of Sava Re;
- Primoz Mocivnik, Chairman of the Board of Directors (BoD);
- Gianni Sokolic, member of the BoD and General Director of the Company;
- Robert Straka, member of the BoD;
- Ramis Ahmetaj, member of the BoD;
- Rok Moljk, member of the BoD;

Transactions with parent company

The Company has had the following re-insurance transactions with related parties:

31 December 2018	Receivables	Liabilities	Income	Expenses	Total
Sava Re	**709,405**	**857,879**	**420,150**	**718,431**	**2,705,865**
Premium ceded for the period				702,443	702,443
Reinsurance recoveries for the period			279,172		279,172
Reinsurance commission			140,978		140,978
Liability for premium ceded		128,104			128,104
Other Shor term Liabilities		650,169			650,169
Due from Sava Re for Unearned Premiums	307,549				307,549
Due from Sava Re for Outstanding Claims	303,557				303,557
Reinsurance share on insurance liabilities	98,299				98,299
Interest Expense				8,356	8,356
Deferred revenue from commission		79,606			79,606
Other Expenses (car rental)				7,632	7,632
Illyria Life	**2,305**	**-**	**26,694**	**-**	**28,999**
Income from rent services			26,694		26,694
Receivables from services provided	2,305				2,305
Management remunerations and benefits				**34,531**	**34,531**
Management remunerations				34,531	34,531
Total	**711,710**	**857,879**	**446,844**	**752,962**	**2,769,395**

30. RELATED PARTY TRANSACTIONS (CONTIUED)

31 December 2017	Receivables	Liabilities	Income	Expenses	Total
Sava Re	**629,900**	**156,806**	**1,133,960**	**650,651**	**2,571,317**
Premium ceded for the period	-	-	-	650,651	**650,651**
Reinsurance recoveries for the period	-	-	1,001,620	-	**1,001,620**
Reinsurance commission	-	-	132,340	-	**132,340**
Liability for premium ceded	-	152,990	-	-	**152,990**
Other Shor term Liabilities	-	3,816	-	-	**3,816**
Due from Sava Re for Unearned Premiums	295,874	-	-	-	**295,874**
Due from Sava Re for Outstanding Claims	252,880	-	-	-	**252,880**
Reinsurance share on insurance liabilities	44,651	-	-	-	**44,651**
Deferred revenue from commission	36,495	-	-	-	**36,495**
Illyria Life	**5,789**	**-**	**23,155**	**-**	**28,944**
Income from rent services	-	-	23,155	-	**23,155**
Receivables from services provided	5,789	-	-	-	**5,789**
Sava Tilia					
Premium ceded for the period					
SAVA Osiguranje Beograd					
Other Shor term Liabilites					
Management remunerations and benefits	**-**	**-**	**-**	**38,976**	**38,976**
Management remunerations	**-**	**-**	**-**	31,344	**31,344**
Other Expenses (car rental)	**-**	**-**	**-**	7,632	**7,632**
Total	**635,689**	**156,806**	**1,157,115**	**689,627**	**2,639,237**

31. SUBSEQUENT EVENTS

There are no other events after the balance sheet dates that require adjustments or disclosure in the financial statement.