

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

INSURANCE COMPANY DUKAGJINI SH.A.

31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Insurance Company Dukagjini Sh.a

Qualified Opinion

We have audited the financial statements of Insurance Company Dukagjini Sh.a ("the Company"), which comprise the statement of financial position as at 31 December 2019 and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Qualified Opinion

- i. As disclosed in Note 13 to the financial statements, the balance of Company's Receivables for claims in regress as at 31 December 2019 and 31 December 2018 amounts to EUR 347 thousand and EUR 370 thousand, respectively. The recognition of these assets is based on lawsuits initiated by the Company toward other individuals and companies for claims paid by the Company and which are considered to be recoverable by the Company. Based on the information and evidence received by the Company we were unable to determine if the collection of these receivables is virtually certain and in control of the Company, hence we were unable to satisfy ourselves, with the validity and recoverability of these assets as at 31 December 2019 and 2018.

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

Key Audit Matters

Key audit matters are those matters that in our professional judgment were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

THE POWER OF BEING UNDERSTOOD
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Gross claim reserves	
<p>As disclosed in Note 16 to the accompanying financial statements the Company's Gross Claim Reserves as at 31 December 2019 amounted to EUR 4,853 thousand (31 December 2018; EUR 4,542 thousand). Losses and Loss Adjustment Expenses resulting from the change in insurance liabilities for Insurance liabilities for losses and loss adjustment expenses amount to EUR 2,886 thousand.</p> <p>Reference to the financial statements: Note 4.4 Insurance Risk and 16 Gross Claim Reserves.</p>	
Key Audit Matter	How the matter was addressed in our audit
<p>The company gross claim reserves are composed from: Reported but not settled claim (RBNS), Incurred but not reported claims (IBNR) and claim handling cost.</p> <p>The determination of the claim reserves requires the management of Company to make assumptions in the valuation thereof, which is determined with reference to an estimation of the ultimate cost of settling all claims reported and incurred but not yet reported at the Statement of Financial Position date. The company make use of an actuarial specialists for the estimation of the claim reserves.</p> <p>The calculation of claim reserves is based on the following factors:</p> <ul style="list-style-type: none"> • Previous experience in claims patterns. • Claims settlement patterns • Trends in claims frequency. • Changes in the claims processing cycle; and • Variations in the nature and average cost per claim. <p>Certain of the above-mentioned factors require judgement and assumptions to be made by the management and therefore we identified the valuation of the claim reserves as a key audit matter.</p>	<p>We involved actuarial specialists to assist us in performing our audit procedures. Our audit focused on the models considered material and more complex and/or requiring significant judgement in setting of assumptions. Our audit response included the following:</p> <ul style="list-style-type: none"> • Tested the design, implementation and operating effectiveness of key controls related to the process of establishing and adjusting outstanding claims provisions. • Evaluated the methodology used by the Company for valuation of claim provisions against regulatory and financial reporting requirements. • We reviewed the methodology and assumptions used by the Company to establish its IBNR losses and performed recalculation of Company's IBNR losses for a sample of the most significant lines of business. • We performed additional testing procedures on a sample for reported but not settled losses (RBNS) to assess their adequacy. • We also tested, on a sample basis, whether the input data in the model for recalculation of estimates is accurate and complete. • We assessed the adequacy of the disclosures included in notes 4.4 Insurance Risk and 16 Gross Claim Reserves of the financial statements in accordance with International Financial Reporting Standards and regulatory requirement.

Other Information

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

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

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the basis for qualified opinion section above, we were unable to obtain sufficient and appropriate audit evidence about the carrying amount of Receivables for claims in regress as at 31 December 2019 and 2018. Accordingly, we are unable to conclude whether the other information is materially misstated with respect to this matter. Furthermore, we draw attention to the supplementary schedules table 2 "Capital Calculation" which is not calculated in accordance with the article 4, 5 and 6 of the regulation on "calculation of the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers".

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

The Shareholders meeting of Dukagjini Sh.a has appointed us on 19 July 2019 as auditors of the Company for the year ended 31 December 2019. This is our second consecutive year as auditors of the Company.

We confirm that:

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

RSM Kosovo Sh.p.k.

RSM Kosovo Sh.p.k

Prishtina, Republic of Kosovo

20 May 2020

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

Astrit Kelmendi

Engagement Partner

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019 EUR '000	2018 EUR '000
ASSETS			
Cash and cash equivalents	7	81	73
Term deposits	8	5,000	3,755
Investments in treasury bonds	9	3,305	3,328
Insurance receivables	10	528	323
Deferred acquisition costs	11	796	908
Reinsurance share of insurance liability	14	120	4
Property and equipment	12	2,148	1,906
Other Assets	13	740	683
TOTAL ASSETS		12,718	10,980
EQUITY AND LIABILITIES			
EQUITY			
Shareholders capital	15	6,125	5,990
Accumulated losses		(2,678)	(2,875)
TOTAL EQUITY		3,447	3,115
LIABILITIES			
Gross Claim Reserves	16	4,853	4,542
Gross Premium Reserves	17	2,950	2,843
Insurance and Other Liabilities	18	1,325	480
Lease Liabilities	19	143	-
TOTAL LIABILITIES		9,271	7,865
TOTAL EQUITY AND LIABILITIES		12,718	10,980

These financial statements have been approved by the Management of the Company on 15 May 2020 and signed on its behalf by:



Mr. Korab Lluka
General Director



Mr. Bekim Nikaj
Financial Director

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

	Notes	2019 EUR '000	2018 EUR '000
Gross premiums written	20	6,956	6,038
Less: Premium tax		(265)	(302)
Less: Re-insurers' share of gross written premium		(169)	(159)
NET WRITTEN PREMIUMS		6,522	5,577
Change in the Gross Provision for Unearned Premiums	17	(107)	(685)
Change in Reinsurer Share of Provision for Unearned Premiums		-	(58)
NET EARNED PREMIUMS		6,415	4,834
Financial income	21	167	157
Other income	22	23	265
TOTAL REVENUES		6,605	5,256
Losses and loss adjustment expenses	16	(2,886)	(2,609)
Contribution to KIB for administrative expenses		(209)	(172)
Change in Deferred acquisition Cost	11	(112)	311
Depreciation and amortization expenses	12	(141)	(93)
Other operating and administrative expenses	23	(3,060)	(3,076)
TOTAL EXPENSES		(6,408)	(5,639)
(LOSS)/ PROFIT FOR THE YEAR		197	(383)
Other comprehensive income for the year:			
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR		197	(383)

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

	Shareholders capital EUR '000	Accumulated losses EUR '000	Total EUR '000
AT 01 JANUARY 2019	5,990	(2,875)	3,115
Adjustment from the adoption of IFRS 16	-	-	-
Adjusted balance at 1 January 2019	5,990	(2,875)	3,115
<u>Transactions with owners</u>			
Capital contribution (Note 15)	135	-	135
Total transactions with owners	135		135
Profit for the year	-	197	197
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME	-	197	197
AT 31 DECEMBER 2019	6,125	(2,678)	3,447
 AT 01 JANUARY 2018	 5,780	 (2,492)	 3,288
<u>Transactions with owners</u>			
Capital contribution (Note 15)	210	-	210
Total transactions with owners	210		210
Loss for the year	-	(383)	(383)
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE LOSS	-	(383)	(383)
AT 31 DECEMBER 2018	5,990	(2,875)	3,115

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 EUR'000	2018 EUR'000
OPERATING ACTIVITIES			
Profit (Loss) for the year		197	(383)
<i>Adjusted for non-cash items:</i>			
Depreciation and amortization	12	141	93
Interest income	21	(197)	(180)
Interest expense	21	30	23
Premium Tax expense		265	302
Write offs and Impairment of receivables, net		48	37
Loss / (gains) from disposal of property, plant and equipment		17	-
		501	(108)
<i>Changes in operating assets:</i>			
Gross claim reserves		311	230
Unearned premiums		107	685
Reinsurance assets		(116)	83
Deferred acquisition costs		112	(311)
Insurance premiums receivables		(205)	(156)
Other assets		(57)	(149)
Insurance and Other Liabilities		836	(91)
Premium tax paid		(265)	(302)
Interest paid		(30)	(24)
Net cash generated(used) from operating activities		1,194	(143)
INVESTING ACTIVITIES			
Purchase of fixed assets	12	(219)	(178)
Term deposits	8	(1,245)	20
Investment in treasury bonds		(23)	(21)
Interest received		209	139
Net cash generated used in investing activities		(1,278)	(40)
FINANCING ACTIVITIES			
Capital paid		135	210
Lease liability		(43)	-
Net cash generated in financing activities		92	210
NET CHANGE IN CASH AND CASH EQUIVALENTS		8	27
Cash and cash equivalents at the beginning		73	46
CASH AND CASH EQUIVALENTS AT END	7	81	73

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NOTES

FOR THE YEAR ENDED 31 DECEMBER 2019

1 GENERAL

IC Dukagjini Sh.a (the "Company") was established on 26 April 2005, and operates under a license issued by the Central Bank of the Republic of Kosovo (the "CBK") to conduct the business of general insurance in the territory of Kosovo. The company is registered with business registration number 70260436 on 26 April 2005.

The main business activity of the Company is insurance of Motor Vehicle Third Party Liability. The Company performs its business in compliance with laws and regulations of Republic of Kosovo.

The Company also issued policies under the following classes of insurance business, being:

- Property insurance;
- Construction All Risk (CAR);
- Travel health insurance;
- Personal accidents;
- Comprehensive Motor Vehicle Insurance

The company was previously named Croatia Sigurimi owned from "Croatia Osiguranje".

On April 29, 2016, the company submitted to the Central Bank of Republic of Kosovo the request for sales of Croatia osiguranje shares to Ekrem Lluka and Agim Lluka. On May 19, 2016, the Central Bank of Republic of Kosovo based on article 35 of law No. 05/L-045 on insurances, approved the change of owners of Croatia Sigurimi.

The address of the Company's head office is Str. Demokracia, Nr.20, 10000, Prishtina, Kosovo. As at 31 December 2019 the Company has total of 123 staff, agents, and senior management (31 December 2018: 120).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE WITH IFRS

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

The financial statements have been prepared on an historical cost basis, except for available-for-sale financial assets which are measured at fair value and held-to-maturity financial assets, which are measured at amortized cost. The financial statements are presented in euros (€) rounded to the nearest thousand (€000), unless otherwise indicated.

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

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

NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2.2 Application of new IFRS requirements

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

IFRS 16 Leases

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

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

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

2.4 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.5 PROPERTY AND EQUIPMENT

Recognition and measurement

The property and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (expenses)/income' in the profit or loss.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

Depreciation of property, plant and equipment is calculated using the straight line basis to allocate their cost to their residual values over their estimated useful lives, as follows:

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	Depreciation rate per annum
Leasehold Improvements	5%
Computers and related equipment	20%
Furniture, fixtures and other equipment	20%
Vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

2.6 LEASED ASSETS

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

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

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

2.7 IMPAIRMENT OF NON- FINANCIAL ASSETS

Impairment of property, plant and equipment and of intangible assets with finite useful lives

The carrying amounts of such assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2.8 LEASE LIABILITY

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

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

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

2.9 FINANCIAL INSTRUMENTS

Initial recognition and measurement

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

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

Subsequent measurement of financial assets

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

(a) Loans and receivables

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

(b) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Company's management has the positive intention and ability to hold to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. The Company has classified in this category investment in treasury bonds and term deposits.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Impairment of financial assets

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

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

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

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

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

Derecognition

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

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

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

Subsequent measurement of financial liabilities

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

Other financial liabilities All liabilities which have not been classified in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

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

2. 10 PRODUCT CLASSIFICATION

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

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts can also transfer financial risk.

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

2.11 INSURANCE CONTRACTS (LIABILITIES)

Recognition and measurement

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.

Gross premiums written are recorded on the accrual basis according to insurance contracts and policies issued during the year and are credited to earning on a pro-rata basis over the term of the related policy coverage. Gross written premiums reflect business written during the year, and exclude any taxes or duties based on premiums. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of the risks underwritten.

Unearned premiums

The provision for unearned premium comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Insurance contracts liabilities

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

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

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

Claims arising from general insurance business (loss adjustments)

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

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

Whilst the 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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Claims handling costs

Claim handling costs consist of internal and external expenses in relation to valuation, handling and assessment of claims by the Company's personnel as well as external expenses like legal fees and other expenses. Management has estimated claim-handling cost equal to 2.5% (2018: 2.5%) of total RBNS reserve excluding Border Claims and Compensation fund handling costs which are determined by the Kosovo Insurance Burea

2.12 REVENUE RECOGNITION

Premium Income

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

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following financial year, using the daily pro - rata basis 1/365, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. However the all the products in force by the Company have linear risk and no adjustments for variation of risks have been currently made.

Fees and commission income

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees and charges are recognized as revenue over the period in which the related services are performed.

Interest income

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

2.13 BENEFIT CLAIMS AND EXPENSES RECOGNITION

Benefits and claims

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

2.14 CASH AND CASH EQUIVALENTS

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

2.15 TERM DEPOSITS

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

2.16 SHARE CAPITAL

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

Accumulated losses

Accumulated losses include all current and prior period losses.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2.17 TAXATION

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

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

Corporate income tax

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

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

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

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

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

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

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

The Company has not recognized any deferred tax assets or liability as at 31 December 2019

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

2.18 EMPLOYEE BENEFITS

Retirement benefits cost

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

2.19 PROVISIONS

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

2.20 EXPENSES RECOGNITION

Finance cost

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

2.21 COMMITMENTS AND CONTINGENCIES

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

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

2.22 RELATED PARTY TRANSACTIONS

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

2.23 EVENTS AFTER THE REPORTING PERIOD

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

3 SIGNIFICANT JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Valuation of insurance contract liabilities

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

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

Impairment losses on receivables

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4 INSURANCE AND FINANCIAL RISK

4.1 Governance framework

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

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

4.2 Regulatory framework

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

4.3 Reinsurance strategy

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

4.4 Insurance risk

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

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company principally issue following types of insurance contracts: motor third party liability insurance, health insurance, property, insurance, professional indemnity insurance and other insurance contracts. For motor third party liability insurance, the most significant risk are material and not material damages caused due to accidents. For property insurance and healthcare insurance most

NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

significant risks are: natural disaster, fire, terrorist activities, epidemics, medical science and technology improvements.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The maximum insurance retention retentions is 10% of minimum required regulatory capital, respectively EUR 320 thousand

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

31 December 2019	Gross Liabilities EUR'000	Reinsurance of liabilities EUR'000	Net Liabilities EUR'000
Motor Third party liability	3,241	(120)	3,121
KIB	722	-	722
Compensation fund	635	-	635
Casco	42	-	42
Health insurance	38	-	38
All liability insurance	-	-	-
Other Property Insurance	175	-	175
TOTAL	4,853	(120)	4,733

31 December 2018	Gross Liabilities	Reinsurance of liabilities	Net Liabilities
Motor Third party liability	3,005	-	3,005
KIB	676	-	676
Compensation fund	665	-	665
Casco	26	(4)	22
Health insurance	10	-	10
All liability insurance	-	-	-
Other Property Insurance	160	-	160
TOTAL	4,542	(4)	4,538

4.5 Credit risk

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

	2019 EUR'000	2018 EUR'000
Cash and cash equivalents	81	73
Term deposits	5,000	3,755
Investment in treasury bond	3,305	3,328
Insurance receivables	528	323
MAXIMUM EXPOSURES TO CREDIT RISK	8,914	7,479

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

Treasury bonds are debt securities issued from the Government of the Republic of Kosovo and traded in the secondary market from the commercial banks in the Republic of Kosovo. The maturity of the bills varies from 30 September 2016 to 26 February 2021.

NOTES (CONTINUED)
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Insurance receivable.

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

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

	2019 EUR'000	2018 EUR'000
Up to 30 days	97	104
From 1 to 3 months	98	39
From 3 to 6 months	39	55
From 6 to 12 months	294	74
Over 1 year	954	957
	1,482	1,229
Less: impairment provision	(954)	(906)
	528	323

	2019 EUR'000	2018 EUR'000
Neither Past due nor impaired	97	104
Past due but no impaired	431	219
Impaired	954	906
Less: impairment provision	(954)	(906)
INSURANCE RECEIVABLES, NET	528	323

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

	2019 EUR'000	2018 EUR'000
AT 01 JANUARY	906	899
Impairment charge for the year Note 22	48	98
Release for the year (Note 21)	-	(91)
At 31 December	954	906

4.6 Market Risk

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

NOTES (CONTINUED)
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Interest Rate Risk

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

	Up to six months	6 months to one year	Over one Year	Non- interest bearing	Total
31 December 2019	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cash and cash equivalents	81	-	-	-	81
Term deposits	-	2,930	2,070	-	5,000
Investment in treasury bond	-	-	3,305	-	3,305
Insurance receivables	-	-	-	528	528
Other Assets	-	-	-	740	740
Total	81	2,930	5,375	1,268	9,654
Liabilities for Losses and loss adjustment expenses	-	-	-	4,853	4,853
Insurance and other payables	-	-	-	1,325	1,325
Lease Liability	-	46	97	-	143
Total	-	46	97	6,178	6,321

	Up to six months	6 months to one year	Over one Year	Non- interest bearing	Total
31 December 2018	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cash and cash equivalents	73	-	-	-	73
Term deposits	-	1,995	1,760	-	3,755
Investment in treasury bond	-	-	3,328	-	3,328
Insurance receivables	-	-	-	323	323
Other Assets	-	-	-	683	683
Total	73	1,995	5,088	1,006	8,162
Liabilities for Losses and loss adjustment expenses	-	-	-	4,542	4,542
Insurance and other payables	-	-	-	480	480
Total	-	-	-	5,022	5,022

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Foreign currency risk

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

4.7 Liquidity risk

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

31 December 2019	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	Over 1 year EUR'000	Total EUR'000
ASSETS					
Cash and cash equivalents	81	-	-	-	81
Term deposits	-	-	2,930	2,070	5,000
Investments in treasury bonds	-	-	-	3,305	3,305
Insurance receivables	528	-	-	-	528
Other Assets	-	-	-	740	740
TOTAL ASSETS	609	-	2,930	6,115	9,654
LIABILITIES					
Gross Claim Reserves	(4,853)	-	-	-	(4,853)
Insurance and Other Liabilities	(1,325)	-	-	-	(1,325)
Lease Liabilities	-	-	(46)	(97)	(143)
TOTAL LIABILITIES	(6,178)	-	(46)	(97)	(6,321)
MATURITY GAP	(5,569)	-	2,884	6,018	3,333
31 December 2018	Up to 1 month EUR'000	1-3 months EUR'000	3-12 months EUR'000	Over 1 year EUR'000	Total EUR'000
ASSETS					
Cash and cash equivalents	73	-	-	-	73
Term deposits	-	-	1,995	1,760	3,755
Investments in treasury bonds	-	-	-	3,328	3,328
Insurance receivables	104	39	129	51	323
Other Assets	683	-	-	-	683
TOTAL ASSETS	860	39	2,124	5,139	8,162
LIABILITIES					
Liabilities for Losses and loss adjustment expenses	(4,542)	-	-	-	(4,542)
Insurance and other payables	(480)	-	-	-	(480)
TOTAL LIABILITIES	(5,022)	0	0	0	(5,022)
MATURITY GAP	(4,162)	39	2,124	5,139	3,140

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

6 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2019 EUR'000	Adoption of IFRS 16 EUR'000	Cash flows EUR'000	31 December 2019 EUR'000
Lease Liabilities	-	186	(43)	143
Total liabilities from financing activities	-	186	(43)	143

7 CASH AND CASH EQUIVALENTS

	2019 EUR'000	2018 EUR'000
Current accounts with local bank	81	73
	81	73

8 TERM DEPOSITS

	2019 EUR'000	2018 EUR'000
Deposits with banks	4,680	3,459
Restricted cash with Central Bank of Kosovo (CBK)	320	296
	5,000	3,755
Maturity of deposits		
Due within one year	2,070	2,905
Due after one year	2,930	850
	5,000	3,755

Term deposits are maintained with domestic financial institutions. These deposits as at 31 December 2019 are fixed deposits and carry interest at the rate of 1% to 3.20% per annum (31 December 2018: 1.3% to 3.4% per annum).

9 INVESTMENT IN TREASURY BONDS

	2019 EUR'000	2018 EUR'000
Investment in treasury bonds	3,305	3,328
	3,305	3,328

Treasury bonds are debt securities issued from the Government of the Republic of Kosovo and traded in the secondary market from the commercial banks in the Republic of Kosovo. The bonds mature on 26 February 2021 and have effective interest rate of 3.5% per annum.

10 INSURANCE RECEIVABLES

	2019 EUR'000	2018 EUR'000
Insurance receivables		
Receivables for compulsory products	376	280
Receivables for voluntary products	503	350
Receivable from Kosovo Insurance Bureau	603	599
	1,482	1,229
Less: Impairment provision	(954)	(906)
Insurance receivables, net	528	323

Insurance receivable are amount due from customers for insurance premium for insurance contracts sold during the ordinary course of business. Collection of amounts is expected in one year or less. For insurance receivable aging and movement in impairment provision refer to note 4.5.

NOTES (CONTINUED)

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11 DEFERRED ACQUISITION COSTS

The Company classifies the following expenses as deferred acquisition costs

	2019 EUR'000	2018 EUR'000
Agents salary and related costs	643	525
Premium tax 5%	112	302
Provision to CBK	41	81
TOTAL DEFERRED ACQUISITION COST	796	908

12 PROPERTY AND EQUIPMENT

COST	Equipment and furniture EUR'000	Vehicles EUR'000	Leasehold Improvements EUR'000	Investment in progress EUR'000	Buildings EUR'000	Total EUR'000
At 01 JANUARY 2018	296	448	360	1,400	-	2,504
Additions for the year	35	90	-	53	-	178
Disposals	(152)	(67)	(356)	-	-	(575)
At 31 DECEMBER 2018	179	471	4	1,453	-	2,107
At 01 JANUARY 2019	179	471	4	1,453	-	2,107
Additions for the year	110	-	-	109	-	219
Disposals	(92)	-	(14)	-	-	(106)
Adjustment on transition to IFRS 16	-	-	-	-	187	187
At 31 December 2019	187	471	-	1,562	187	2,407
ACCUMULATED DEPRECIATION						
At 01 JANUARY 2018	(191)	(136)	(357)	-	-	(684)
Depreciation for the year	(35)	(55)	(2)	-	-	(92)
Disposals	152	67	356	-	-	575
At 31 DECEMBER 2018	(74)	(124)	(3)	-	-	(201)
At 01 JANUARY 2019	(74)	(124)	(3)	-	-	(201)
Depreciation for the year	(51)	(43)	-	-	(47)	(94)
Disposals	71	9	3	-	-	83
At 31 DECEMBER 2019	(54)	(158)	-	-	(47)	(259)
NET CARRYING AMOUNT						
At 31 DECEMBER 2018	105	347	1	1,453	-	1,906
At 31 DECEMBER 2019	134	312	-	1,562	140	2,148

Work in progress in the amount of EUR 1,562 thousand (2018: EUR 1,453 thousand) represents investments for construction of Company's main office. The Investment was approved from the Central Bank of Kosovo.

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	2019 EUR'000
Buildings Offices – Right of Use	187
Accumulated Depreciation	(47)
Total right-of-use assets	140

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

13 OTHER ASSETS

	2019 EUR'000	2018 EUR'000
Receivables for claims in regress	347	370
KIB Deposit	125	125
Interest receivables	62	63
Prepayment to Compensation Fund	201	59
Prepayment to suppliers	5	14
Advances to employees and other assets	-	52
	740	683

The receivables from other insurance individuals and companies are related to claims paid by KS Dukagjini. However, since the parties causing the accidents were insured with third party liability motor vehicle insurance in other insurance companies, KS Dukagjini expects to be compensated for these amounts. During the year ended 31 December 2019 the Company has recovered EUR 23 thousand.

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

14 REINSURER SHARE OF INSURANCE LIABILITY

	2019 EUR'000	Change for the period EUR'000	2018 EUR'000
Reinsurance share on insurance liability on claims reserves	120	116	4
	120	116	4
REINSURANCE ASSETS	120	116	4

15 SHARE CAPITAL

The Company is registered with Kosovo Business Registration Agency under Business Reg. No. 70260436 dated 26 April 2005 as Joint Stock Company.

Ownership

The Company's shareholders' structure as of the statement of financial position date is as follows:

	Amount in EUR'000	2019 % of equity interest	Amount in EUR'000	2018 % of equity interest
Mr. Ekrem Lluka	3,062.5	50%	2,995	50%
Mr. Agim Lluka	3,062.5	50%	2,995	50%
	6,125	100%	5,990	100%

Share capital is divided into 3,062.5 shares with nominal value of EUR 1,000 per share.

The Company's share capital accounted for in the Company's accounts, amounts as at 31 December 2019 is EUR 6,125 thousand (2018: EUR 5,990 thousand). Whereas in the business information obtained by the Kosovo Business Registration Agency the share capital accounted is EUR 5,780 thousand.

The Company is in process of updating its Statute as well as its registration documentation with Kosovo Business Registration Agency.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

Shareholders' equity

Based on the law no 05/L -045 on insurances which has entered into force on January 2016 the Company's charter capital should not be less than EUR 3,200 thousand at any time. As at 31 December 2019 total Company's equity presented in the statement of financial position amounts to EUR 3,449 thousand. (2018: EUR 3,115 thousand).

16 GROSS CLAIM RESERVES

	2019 EUR'000	2018 EUR'000
Reported but not settled (RBNS)	3,565	3,665
Claims incurred but not yet reported (IBNR)	1,158	773
Claims handling cost reserve	130	104
TOTAL GROSS CLAIM RESERVES AT 31 DECEMBER	4,853	4,542

Following table summarizes the movement in the claims provision account:

	2019 EUR'000	2018 EUR'000
As at 1 January	4,542	4,312
Losses and loss adjustment expenses incurred	2,886	2,609
Losses and loss adjustment expenses paid	(2,575)	(2,371)
Reinsurance Recovery	-	(8)
GROSS CLAIM RESERVES AT 31 DECEMBER	4,853	4,542

Included in gross claim reserves are reserves for Border Insurance and Compensation fund in amount of EUR 1,358 thousand as at 31 December 2019 December 2018: EUR 1,341 thousand).

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

17 GROSS PREMIUM RESERVES

	2019	Change for the period	2018	Change for the period	2017
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Third party liability motor vehicle insurance (TPL)	2,364	(116)	2,480	592	1,888
Tender security	65	7	58	27	31
Comprehensive motor vehicle insurance-Casco	112	9	103	24	79
Third party motor vehicle insurance (TPL+)	96	2	94	20	74
Border premiums — KIB	51	14	37	-3	40
Fire	44	-	44	7	37
Personal Accident	5	1	4	3	1
Professional liability	1	-	1	-1	2
Health and Travel	212	190	22	16	6
	2,950	107	2,843	685	2,158

18 INSURANCE AND OTHER LIABILITIES

	2019	2018
	EUR'000	EUR'000
Tax payables	161	136
Reinsurance payable	114	95
Trade payables	490	80
Payable for salaries and agents	92	79
Premium tax payable	266	45
Other Insurance liabilities	202	45
	1,325	480

19 LEASE LIABILITIES

	2019	2018
	EUR'000	EUR'000
Current	46	-
Non-current	97	-
Total	143	-

The Company has leases for five Office Buildings. Each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of use of asses	No of Right of Use of assets leased	Range of remaining term	Average remaining lease term
Buildings-Leaseholds	5	3-4 years	3 Years

Future minimum lease payments at 31 December 2019 were as follows:

31 December 2019	Minimum lease payments due		
	Within 1 Year	2-3 years	Total
	EUR'000	EUR'000	EUR'000
Lease payments	51	102	153
Finance charges	(5)	(5)	(10)
Net present values	46	97	143

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

20 GROSS PREMIUMS WRITTEN

	2019 EUR'000	2018 EUR'000
Third party liability motor vehicle insurance (TPL)	4,974	4,685
Share of KIB income	920	731
Third party motor vehicle insurance (TPL+)	239	199
Comprehensive motor vehicle insurance-Casco	202	188
Loan and Guarantee security	131	122
Fire	79	66
Travel	402	36
Personal Accident	7	9
Professional liability	2	2
	6,956	6,038

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 CTPL insurance within the territory of Kosovo. The operations of the pool are therefore self-contained and the revenues, claims and overheads are shared based on agreed share.

21 FINANCIAL INCOME / (EXPENSES)

	2019 EUR'000	2018 EUR'000
Interest income	197	180
Interest expenses	(22)	(23)
Interest expense for leasing arrangements	(8)	
	167	157

22 OTHER INCOME

	2019 EUR'000	2018 EUR'000
Income from insurance companies and individuals-regress	23	253
Other income	-	12
	23	265

23 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2019 EUR'000	2018 EUR'000
Staff costs	2,265	2,394
Rent expenses	162	189
Other expenses	208	72
Supervisory Expenses (CBK)	110	81
Losses from written-off advances	70	-
Provision for Impairment of insurance receivables and advances	48	98
Fuel and Travel Expense	33	54
Office Expenses	32	24
IT Expenses	32	39
Communication expenses	29	40
Maintenance Expenses	27	20
Utilities Expenses	17	18
Marketing expenses	16	34
Advocacy and consultancy services	11	13
	3,060	3,076

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

24 PREMIUM TAX

	2019 EUR'000	2018 EUR'000
Premium Tax	265	302
TOTAL PREMIUM AND INCOME TAX	265	302

Premium tax. The premium tax was paid in accordance with Law no. 05/L-029 "On Corporate Income Tax" which was effective from 1 September 2015 up to 5 August 2019. In accordance with the law the insurance companies were required to pay a premium tax of 5% on their quarterly gross premiums. Premiums returned and retrospective premium adjustments are deducted from gross premiums to arrive at the tax base. Based on this law the Insurance companies were not liable to tax on profit in Kosovo for the years up to 31 December 2018 and the period from 1 January 2019 up to 5 August 2019.

Income tax. Insurance Companies are liable to tax on profit with the new Law no. 06/L-105 "On Corporate Income Tax" which is effective from 5 August 2019. In accordance with the Law insurance companies are required to pay the corporate income tax at 10 % at their taxable profits. The tax rate on taxable corporate income is fixed at 10%. The company has reported loss for the period. In the table below the reconciliation of loss before tax is presented:

	2019 EUR'000
Profit before tax for period from 5 August till 31 December 2019	181
Tax effect of amounts which are exempt in calculating taxable income	(488)
Taxable Loss	(307)
Tax Losses Carried Forward	(31)

25 COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, the Company is involved in various claims and legal actions. As at 31 December 2019 there are 263 legal cases, with reserve amounted to EUR 1,587 thousand (2018: 385 legal cases with reserve EUR 2,913 thousand).

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

26 RELATED PARTY TRANSACTIONS

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

INSURANCE COMPANY DUKAGJINI SH.A
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 EUR'000	2018 EUR'000
Statement of comprehensive income		
Marketing Expenses	-	94
Management and Board Compensation	102	99
Statement of Financial Position		
Work in Progress	1,562	1,453
Employee Advances	-	52

27 EVENTS AFTER THE REPORTING DATE

On March 11, 2020, the world health organization declared the outbreak of a coronavirus COVID-19 a pandemic. As the situation is still developing around the world and in Kosovo caused business disruption in operations comparing to the Business As Usual due to restrictive measures imposed by Government, there is high uncertainty over its extent at the time of issuance of these financial statements. The impact will be recognized by the Company in 2020. Management will continue to monitor the potential impact and take all possible steps to mitigate any effects.

There are no other events subsequently to the date of the statement of financial position have occurred which require disclosure or adjustments in the financial statements

1 SOLVENCY MARGIN

Table for Solvency Calculation		2019	2018
		EUR'000	EUR'000
1	Table of reserves for claims		
1.1	Requirements for outstanding claims at the beginning of the period	4,542	4,312
1.2	Paid claims	2,691	2,362
1.3	Requirements for outstanding claims at the end of the period	4,853	4,542
1.4	Incurred losses (1.2 + 1.3) - 1.1	3,002	2,592
1.5	Average of incurred losses	2,797	1,287
2	Table of part of reinsurer requirements		-
2.1	Part of reinsurance for pending claims at the beginning of the period	-	-
2.2	Accepted reinsurance	-	-
2.3	Part of reinsurance for pending claims at the end of the period	-	-
2.4	Part of reinsurance for incurred claims	-	-
2.5	Net incurred losses (held claims)	2,797	1,287
2.6	Holding level	100%	100%
2.7	Average of holding level	100%	100%
3	Based on premiums	2019	2018
3.1	Gross written premiums	6,956	6,038
3.2	Change of premiums	(107)	(743)
3.3	For Q1: 11,12,13 increase of premium for 50%		
3.4	Others (tax & reinsurance)	(435)	(461)
3.5	Total	6,416	4,834
3.6	First layer (fixed to 10 million)	10,000	10,000
3.7	Second layer (more than 10 million)	-	-
3.8	Percentage of the first layer (fixed)	18%	18%
3.9	Percentage of the second layer (fixed)	16%	
3.10	Result based on premiums	1,155	873
3.11	Holding level	100%	100%
3.12	Result of solvency based on premiums	1,155	873
4	Based on claims		
4.1	Incurred gross claims (see table of claims)	3,002	2,592
4.2	First layer (fixed)	7,000	7,000
4.3	Second layer		
4.4	Percentage of the first layer (fixed)	26%	26%
4.5	Percentage of the second layer (fixed)	23%	23%
4.6	Sum of the first layer	1,188	1,290
4.7	Net and gross incurred claims ratio	100%	100%
4.8	Minimum percentage	50%	50%
5	Result of solvency based on claims	1,188	1,290
5	Required Solvency	2019	2018
5.1	Based on premiums	1,155	873
5.2	Based on claims	1,188	1,290
5.3	Required solvency	1,188	1,290
5.4	Required solvency for the previous year	1,290	1,290
5.5	Solvency based on growth of 150%	1,934	1,934

2 CAPITAL CALCULATION

Table for Capital calculation		2019	2018
		EUR'000	EUR'000
I	CHARTER CAPITAL	6,125	5,990
1	Paid share capital of insurers in cash	6,125	5,990
2	Capital reserves (reserves recognized by law and free reserves),	-	-
3	Accumulated profits transferred after the deduction of dividends to be paid	-	-
II	DEDUCTIBLE ELEMENTS FROM CHARTER CAPITAL	(2,725)	(2,877)
1	Repurchased own shares	-	-
2	Investments in intangible (non-material) assets;	-	-
3	Transferred losses and losses of the current year;	(2,725)	(2,877)
4	Difference between reserves for discounted and undiscounted	-	-
III	SUPPLEMENTARY CAPITAL	-	-
1	Share capital of the insurer, consisting of preferential shares issuance according to their nominal amount paid in cash in insurer equity	-	-
2	Subordinated debt Instruments,	-	-
3	Capital reserves linked to preferential share	-	-
4	Other elements	-	-
IV	REGULATORY CAPITAL, (I - II + III)	3,400	3,113
V	DEDUCTIBLE ELEMTS IN CAPITAL CALCULATION	-	-
1	Participations or possessions in ownership of other companies	-	-
2	Investments in subordinated debt instruments	-	-
VI	NON-LIQUID ASSETS	180	52
1	Premiums receivable and debtors from the reinsurance for more than 90 days	-	-
2	Other Debtors	-	-
3	Advances and receivables from related parties	180	52
4	Borrowings from brokers and agents	-	-
5	100% expenses paid in advance and deferred tax assets	-	-
6	Other assets, not excluded from any responsibility or liability	-	-
7	Other assets which are not easily convertible into cash	-	-
8	Intangible assets	-	-
9	Other	-	-
VII	NET PROPERTY - AVAILABLE CAPITAL (IV - V - VI)	3,580	3,061
VIII	GUARANTEE FUND ACCORDING TO THE LAW	3,200	3,200
IX	REQUEST FOR CAPITAL ACCORDING TO THE GUARANTEE FUND	380	(139)
X	REQUEST FOR SOLVENCY COVERAGE	1,286	1,126
XI	FINAL REQUEST FOR CAPITAL GROWTH	-	139

3 ASSETS / INVESTMENTS IN COVERING TECHNICAL PROVISIONS

No	ASSETS / INVESTMENTS IN COVERING TECHNICAL PROVISIONS	Actual amount invested EUR'000	% Of assets allowed to cover technical provisions	The amount allowed by regulation EUR'000
1	Deposits in banks licensed in Kosovo over 3 months, (excluding the charter capital)	5,125	No restriction	5,125
2	Government securities	105	No restriction	105
3	Land and Buildings	1,562	20% in total	1,560
4.2	Current accounts			
4.3	Cash in hand	-		
4	Cash and cash equivalents	81	0	81
5	Accounts receivable from reinsurance, net of liabilities	-	-	-
6.2	With credit rating <BBB	201	Without Limit	201
6	The reinsurer's share in technical provisions, net of liabilities	120	Without Limit	120
7	Estimated investment interests	61	5%	61
8	Accounts receivable from the insurance activities, up to 90 days	528	Up to 20% of the unearned premium	528
9	Other fixed assets, different from point 3.	446	5%	390
10	TOTAL INVESTMENTS COVERING TECHNICAL PROVISIONS	8,229		8,172

No.	Technical Provisions	2019 EUR'000
1	Provisions for unearned premium and unsuccessful risk	2,950
2	Provisions for Loss and Loss adjustments	4,853
3	Other technical provisions	-
4	Total amount required to cover technical provisions	7,803
5	Assets covering technical provisions	8,172
6	Total technical provisions	7,802
7	Difference (5-6)	370
8	Coverage (5/6)	105%