Sigma Interalbanian Vienna Insurance Group SH.A. – Dega në Kosovë

International Financial Reporting Standards Financial Statements and Supplementary Schedules
As at and for the year ended 31 December 2019

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Independent auditor's report

To the shareholders of Sigma Interalbanian Vienna Insurance Group SH.A.

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sigma Interalbanian Vienna Insurance Group SH.A. Dega në Kosovë (the "Branch") as at 31 December 2019, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards.

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in net residual attributable to the head office for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Kosovo Council for Financial Reporting (KCFR) that are relevant to our audit of the financial statements in the Republic of Kosovo. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the KCFR.

Non-audit services

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Branch are in accordance with the applicable law and regulations in the Republic of Kosovo and that we have not provided non-audit services that are prohibited under Article 5 "Prohibition of Provision of Non-Auditing Services" of the Administrative Instruction No. 02/2019 on the Independence of Statutory Auditors and Auditing Firms.

Our audit approach

Overview

Materiality	• Overall materiality for the financial statements of the Branch: EUR 130 thousand, which represents approximately 2.25% of Net insurance premium revenue.
Key audit matters	• Estimates in claims reserves for the non-life business

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Branch, the accounting processes and controls, and the industry in which the Branch operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	EUR 130 thousand (2018: EUR 126 thousand)
How we determined it	Approximately 2.25% of Net insurance premium revenue

Rationale for the materiality benchmark applied	The Branch is profit oriented. Nevertheless, due to volatility of the profit of the Branch it is deemed that it does not appropriately represent the relative size of the operations which makes it less relevant as a benchmark for determining materiality. Based on this, we used another performance-related measure i.e. net insurance premium revenue as a materiality benchmark. We chose 2.25% which we believe is within the range of acceptable quantitative materiality thresholds for this benchmark in the circumstances.

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.

Key audit matter	How our audit addressed the key audit matter
Estimates in claims reserves for the non-life business Claims reserves for the non-life business is related to: ● Claims Reported but Not Settled Reserve ("RBNS"); and ● Incurred but not reported reserve ("IBNR"). The Branch recorded RBNS and IBNR as presented in Note 21 – as Insurance contract liabilities in amount of EUR 9,146,959. The estimates in claims reserves were considered a key audit matter due to the relative large proportion of claims reserves in the total liabilities of the Branch, and its potential impact on the results of the Branch, and also due to the level of judgement involved in assessing the sufficiency of such reserves. Even though both RBNS and IBNR are recorded for covering claims incurred that the Branch will need to settle in the future, the nature and the	Our audit approach was as follows: • We assessed and tested the design and operating effectiveness of selected controls, both manual and IT dependent, in connection with the claims cycle related to reserves. • For a sample of claim files, we tested that the claim reserve is reassessed at the end of each month and is periodically updated with relevant new information received. • We applied specific risk criteria to the RBNS population as at 31 December 2019 in order to identify any unusual items. The criteria were defined based on our knowledge and understanding of the Branch's activity and the industry. • For a sample of claim files identified after applying each risk criteria we requested and received an explanation with respect to the reserve assessment from the Branch's management. Where necessary we corroborated the explanations by reference to relevant supporting documents.

Key audit matter	How our audit addressed the key audit matter
required degree of judgement is different in each case. RBNS is created and updated monthly based on estimates for claims reports received by the Branch, so that the accumulated reserve is sufficient to cover future payments of those claims. It is created at the level of each insurance contract for notified claims that have not yet been fully settled, based on the expected amount to be paid to settle the claim. IBNR is determined based on the Branch's estimation of the value of claims for events that have been incurred but not yet fully reported. Actuarial methods are used in the estimation along with historical data for a representative period such that IBNR is sufficient to cover incurred claims to be reported in the following financial periods.	• For IBNR we evaluated the Branch's methodology used, and further we validated the input data used in the Branch's models. Our actuarial specialists developed an independent expectation to assess the level of expected reserves for significant lines of business. • Where material differences between our expectations and management estimates were found, we investigated them further. • To consider potential bias in the management estimate we have assessed the adequacy of the estimated RBNS and IBNR reported as of the end of the prior reporting period i.e. 31 December 2018 against claims paid and claims in reserve during 2019 ("run-off analysis"), and we considered the results of this analysis in the assumption used for estimating RBNS and IBNR as of 31 December 2019.

Reporting on other information

Management is responsible for the other information. The other information comprises supplementary schedules that include the "Solvency margin" and "Table for Capital Calculation ".

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch'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 Branch'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 Branch 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 to 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Branch on 18 July 2017. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

The statutory auditor on the audit engagement resulting in this independent auditor's report is Jonid Lamllari.

PricewaterhouseCoopers Kosovo sh.p.k.

PricewaterhouseCoopers Kosovo SH.P.K.

14 May 2020

Prishtina, Kosovo

Statutory Auditor
Jonid Lamllari

Sigma Interalbanian Vienna Insurance Group sh.a. Dega në Kosovë
Statement of financial position

(amounts in EUR, unless otherwise stated)

	Note	31 December 2019	31 December 2018 Restated [1]
ASSETS			
Property and equipment	10	405,527	290,098
Right-of-use assets	11	1,028,460	-
Intangible assets	12	307,706	80,879
Reinsurance assets	13	4,614,791	5,913,201
Securities held at amortised cost	14	4,297,031	4,296,050
Term deposits with banks	15	9,596,947	9,793,592
Deferred acquisition costs	16	669,938	724,033
Insurance and other receivables	17	1,327,892	731,114
Other assets	18	347,291	368,579
Cash and cash equivalents	19	928,589	672,808
TOTAL ASSETS		**23,524,172**	**22,870,354**
LIABILITIES			
Insurance contract liabilities	21	9,146,959	10,209,282
Unearned premium reserve	22	4,076,743	3,725,448
Reinsurance deposit	23	2,450,968	2,440,182
Lease liabilities	11	1,046,168	-
Corporate income tax payable	32	14,808	-
Insurance and other liabilities	24	1,176,602	799,795
TOTAL LIABILITIES*		**17,912,249**	**17,174,707**
NET RESIDUAL ATTRIBUTABLE TO THE HEAD OFFICE			
Charter capital	20	3,200,000	3,200,000
Accumulated increase in net residual attributable to the head office	20	2,411,923	2,495,647
TOTAL NET RESIDUAL ATTRIBUTABLE TO THE HEAD OFFICE		**5,611,923**	**5,695,647**

*) excluding net residual attributable to head office.

These financial statements have been approved by the Board of Directors on 12 May 2020 and signed on their behalf by:

Genond Mesareja

Mr, Genond Mesareja
General Director

SIGMA
SIGMA VIENNA INSURANCE GROUP SH.A
DEGA KOSOVË DREJTORIA

Mrs. Gylsa Reka
Finance Director

[1] The statement of financial position for the year ended 31 December 2018 has been subject to restatement of the amounts as explained in note 5.

The notes on pages 5 to 43 are an integral part of these financial statements

Sigma Interalbanian Vienna Insurance Group sh.a. Dega në Kosovë
Statement of profit or loss and other comprehensive income
(amounts in EUR, unless otherwise stated)

	Note	Year ended 31 December 2019	Year ended 31 December 2018 Restated [2]
Gross written premiums	25	10,919,478	10,209,758
Change in gross unearned premium reserve		(351,295)	(421,492)
Insurance premium revenue		***10,568,183***	***9,788,266***
Written premium ceded to reinsurers	26	(4,754,118)	(4,581,805)
Change in reinsurers' share of unearned premium reserve other than MTPL and accidents		(156,246)	455,255
Change in reinsurer's share of unearned premium for MTPL and accidents		201,188	(56,159)
Insurance premium revenue ceded to reinsurer		***(4,709,176)***	***(4,182,709)***
Net insurance premium revenue		**5,859,007**	**5,605,557**
Reinsurance commission	30	1,029,485	1,194,373
Investment income	31	391,159	318,674
Other income	27	14,533	14,185
Net income		**7,294,184**	**7,132,789**
Claims paid gross		(6,768,677)	(4,221,434)
Reinsurer's share of claims paid		2,985,725	1,151,580
Change in gross insurance contract liabilities		(686,772)	(2,246,786)
Change in reinsurance share of insurance contract liabilities		606,931	1,720,787
Net insurance claims		**(3,862,793)**	**(3,595,853)**
Acquisition costs	28	(948,454)	(739,341)
Premium tax		(340,091)	(526,585)
Administrative expenses	29	(2,134,779)	(1,919,382)
Expenses		**(7,286,117)**	**(6,781,161)**
Financial costs	31	(86,970)	(59,571)
Foreign exchange gains, net		9,988	29
(Loss)/Profit before tax, distributions to the head office and remeasurement of net residual balance with the head office		**(68,915)**	**292,086**
Income tax expense	32	(14,808)	-
(Loss)/Profit after tax and before distributions to the head office and remeasurement of net residual balance with the head office		**(83,723)**	**292,086**
Distribution to the head office		-	(192,000)
(Decrease)/increase in net residual attributable to the head office for the year from operations		**(83,723)**	**100,086**

[2] The statement of profit or loss and other comprehensive for the year ended 31 December 2018 has been subject to restatement of the amounts as explained in note 5.

	Net residual attributable to charter capital	Accumulated net residual attributable to the head office	Total
Balance at 1 January 2018	**3,200,000**	**2,395,561**	**5,595,561**
Profit after tax and before distributions to the head office and remeasurement of net residual balance with the head office	-	292,086	292,086
Distributions to the head office	-	(192,000)	(192,000)
Increase in net residual attributable to the head office for the year from operations	**-**	**100,086**	**100,086**
Balance at 31 December 2018	**3,200,000**	**2,495,647**	**5,695,647**
Loss after tax and before distributions to the head office and remeasurement of net residual balance with the head office	-	(**83,723**)	(83,723)
Decrease in net residual attributable to the head office for the year from operations	**-**	**(83,723)**	**(83,723)**
Balance at 31 December 2019	**3,200,000**	**2,411,923**	**5,611,923**

The notes on pages 5 to 43 are an integral part of these financial statements

Sigma Interalbanian Vienna Insurance Group sh.a. Dega në Kosovë
Statement of cash flows
(amounts in EUR, unless otherwise stated)

	Note	31 December 2019	31 December 2018 Restated[3]
(Loss)/Profit before tax, distributions to head office and remeasurement of net residual balance with the head office		**(68,915)**	**292,086**
Cash flows from operating activities			
Adjustments for:			
Depreciation and amortization	10,12	120,920	74,857
Depreciation Right of Use Asset	11	137,570	-
Investment income	31	(391,159)	(318,674)
Financial costs	31	86,970	59,542
Cash flows from operating profits before changes in operating assets and liabilities		**(114,614)**	**107,811**
Increase in insurance and other receivables		(596,778)	(8,157)
Decrease/(increase) in deferred acquisition costs		54,095	(198,839)
Decrease/(increase) in other assets		21,288	(101,211)
Increase in insurance and other liabilities		376,807	41,694
(Decrease)/increase in insurance contract liabilities		(1,062,323)	2,246,786
Increase in unearned premium reserve		351,295	421,492
Increase/(decrease) in reinsurance assets		1,298,410	(2,176,043)
Increase in reinsurance deposit		10,786	21,932
Cash generated from operations before interests and tax		**338,966**	**355,465**
Interest received		356,640	342,730
Interest paid		(45,986)	(59,570)
Net cash from operating activities		**649,620**	**638,625**
Cash flows from investing activities			
Purchases of property and equipment	10	(220,573)	(121,409)
Purchases of intangible assets	12	(249,193)	(474)
Sale of equipment and intangible assets	10	6,590	7,854
Decrease in term deposits		230,183	1,364,680
Investment in securities held at amortised cost		-	(1,655,334)
Cash flow used in investing activities		**(232,993)**	**(404,683)**
Cash flows from financing activities			
Lease payments		(160,846)	-
Cash distribution to the head office		-	(192,000)
Cash flow used in financing activities		**(160,846)**	**(192,000)**
Increase/Decrease in cash and cash equivalents		**255,781**	**41,942**
Cash and cash equivalents at beginning of the period	19	672,808	630,866
Cash and cash equivalents at end of the period	**19**	**928,589**	**672,808**

[3] The statement of cash flows for the year ended 31 December 2018 has been subject to restatement of the amounts as explained in note 5.

1. General information

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for Sigma Interalbanian Vienna Insurance Group sh.a. Dega në Kosovë (the “Branch”).

Sigma Interalbanian Vienna Insurance Group SH.A. is a legal entity registered in the Republic of Albania. The immediate parent company is Vienna Insurance Group AG Wiener Versicherung Gruppe, Vienna, Austria which owns 89.05% of the shares. The ultimate controlling entity of the Group is Wiener Städtische Wechselseitiger Versicherungsverein - Vermögensverwaltung - Vienna Insurance Group, Vienna, Austria.

Sigma Interalbanian Vienna Insurance Group SH.A. operates in Kosovo through the branch.

The branch was established on 11 October 2004 and operates under a license issued by the Central Bank of Kosovo (CBK) to underwrite general non-life insurance risk in the Republic of Kosovo following the provisions of Kosovo Insurance Act, Law no. 05/L045 “On Insurance”. The branch is also required to deposit a minimum amount of EUR 3,200 thousand in the form of charter capital in order to be able to underwrite insurance risks for which it is licensed in the Republic of Kosovo.

As at 31 December 2019 the Branch had 127 employees (2018: 130).

Principal activity: The Branch’s principal business activities comprise underwriting insurance risks in the following non-life lines of business:
- Motor Vehicle Third Party Liability
- Property insurance
- Construction All Risk (CAR)
- Travel Health insurance
- Personal Accidents
- Comprehensive Motor Vehicle Insurance

Registered address and place of business: The branch’s registered address is in Aktash, St. Edmond Hoxha No. 27, Pristine, 10000, Republic of Kosovo. The branch has registered 46 units as other places of business in Kosovo.

The Supervisory and Management Board during 2019 and up to the date of approval of these financial statements consisted of the following:

Supervisory Board	***Position***
Mr Peter Hoefinger	Chairman
Mr Christoph Rath	Deputy Chairman
Mr Jonard Prodani	Member
Mr Michael Hack	Member
Ms Sonja Raus	Member

2. Basis of preparation

Statement of compliance These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out in Note 5. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3 and **Error! Reference source not found.** for adoption of new or revised standards and interpretations and new accounting pronouncements adopted by the Branch and note 5 (t) for restatement of comparative information).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 8.

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

3. Adoption of new or revised standards and interpretations

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The branch decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the branch has used the following practical expedients permitted by the standard:

- applying a single discount rate to its portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The branch has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the branch relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

The weighted average incremental borrowing rate applied by the branch to the leased liabilities on 1 January 2019 was 3.87%.

As at 31 December 2018 the branch had non-cancellable lease commitments of EUR 1,360 thousand. Of these commitments, EUR 33 thousand are related to short-term leases.

A reconciliation of the operating lease commitments disclosed in Note 33 to the recognised liability is as follows:

	31 December 2018 / 1 January 2019
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018	1,360,668
- Effect of discounting to present value	(172,266)
- Less short-term leases not recognised as a liability	(32,591)
Total lease liabilities recognised as at 1 January 2019	**1,155,811**
Of which are:	
Short-term lease liabilities	123,194
Long-term lease liabilities	1,032,617

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

	Notes	**Impact of adopting IFRS 16**
Increase in right-of-use assets	11	1,155,811
Increase in lease liabilities	11	1,155,811

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

The following amended standards became effective from 1 January 2019, but did not have any material impact on the branch:

- IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

4. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. Therefore, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies.

IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. In cooperation with the parent company, the branch is currently involved in the group wide IFRS 17 implementation project. Currently, the assessment of the impact of the new standard in the Branch’s financial statements is in progress, but it is expected that the first-time implementation of the new standard to have significant impact in Branch’s financial statements.

4. New accounting pronouncements (continued)

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

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

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

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. No impact is expected from the amendments to the branch's financial statements.

Except for IFRS 17 and unless otherwise described above, the new standards and interpretations are not expected to affect significantly the branch's consolidated financial statements.

5. Significant accounting policies

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

(a) Foreign currency transactions

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

5. Significant accounting policies (continued)

(b) Classification of insurance contracts

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

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

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

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

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

Claims arising from general insurance business. Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as the changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Insurance liabilities for claims outstanding are not discounted. Adjustments to claims insurance liabilities established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The insurance liabilities for incurred but not reported claims are estimated based on Chain Ladder paid triangles method for Motor Third Party Liability (“MTPL”). For MTPL plus, Casco, Property and Health, Chain Ladder incurred triangle method was used, while for Personal Accidents and health in travel Chain Ladder method set up by using number of incurred claims was used. Reserve for Incurred but not reported (‘IBNR’) claims for Border Guarantee fund is determined by Kosovo Insurance Bureau (‘KIB’). Whilst the Management 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.

5. Significant accounting policies (continued)

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

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

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

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

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

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

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

5. Significant accounting policies (continued)

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

(c) Financial instruments

Consistent with requirements of IFRS 4 amendments "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts", the Branch decided to defer adoption of IFRS 9 and met the related qualifying conditions because (i) its liabilities connected with insurance contracts liabilities exceeded 95% of total liabilities at 31 December 2015 and (ii) there were no subsequent substantial changes in the entity's activities. The Branch expects to apply IFRS 9 from 2023 and it has not applied it at any earlier stage. The Branch's financial instruments are all measured at amortized cost and are classified depending on their measurement category. The financial assets meet the sole payment of principal and interest criteria and would thus be measured the same under IFRS 9. Credit ratings are provided in notes 14 and 15 respectively.

We provide the following disclosures about our financial assets as of 31 December 2019 and 2018 in order to enable comparison with entities that apply IFRS 9 from 1 January 2019 and 2018 respectively:

	Assets that are not solely payments of principal and interest (Non-SPPI)		Assets that are solely payments of principal and interest (SPPI) assessed on FV basis		Carrying value (IAS 39) of assets that are SPPI analysed by credit rating (gross carrying value in the case of assets at amortised cost)				Fair value of assets rated or without rating
	Fair value	Fair value gains / (losses) for the year	Fair value	Fair value gains / (losses) for the year	A	BBB	Without rating	Total for ratings and without rating	
31 December 2019									
Loans and receivables:									
Securities held at amortised cost	-	-	4,802,715	98,279	-	-	4,297,031	4,297,031	4,802,715
Term deposits with banks	-	-	9,600,275	3,009	-	7,720,000	1,876,947	9,596,947	9,600,275
Cash and cash equivalents	-	-	928,589	-	1,819	915,335	11,435	928,589	928,589
Total financial assets at amortised cost	**-**	**-**	**15,331,579**	**101,288**	**1,819**	**8,635,335**	**6,185,413**	**14,822,567**	**15,331,579**
31 December 2018									
Loans and receivables:									
Securities held at amortised cost	-	-	4,704,436	(132,134)	-	-	4,296,050	4,296,050	4,704,436
Term deposits with banks	-	-	9,827,293	8,198	-	8,200,000	1,593,592	9,793,592	9,827,293
Cash and cash equivalents	-	-	672,808	-	14,356	628,057	30,395	672,808	672,808
Total financial assets at amortised cost	**-**	**-**	**15,204,537**	**(123,936)**	**14,356**	**8,828,057**	**5,920,037**	**14,762,450**	**15,204,537**

i) Recognition

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

5. Significant accounting policies (continued)

ii) Classification

Financial assets of the Branch are classified as held to maturity investments in securities (HTM) and loans and receivables (term deposits with banks and insurance receivables). Financial liabilities are classified as other financial liabilities (including insurance/trade liabilities and other liabilities) and are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

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

iii) Derecognition

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

The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iv) Amortized cost measurement

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

v) Offsetting

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

vi) Impairment of financial assets carried at amortized cost

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

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Branch obtains;
- the counterparty considers bankruptcy or a financial reorganisation;

5. Significant accounting policies (continued)

- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

(d) Cash and cash equivalents

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

(e) 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.

(f) Other receivables

Other receivables are stated at their cost less impairment losses.

(g) Insurance receivables

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

(h) Prepayments

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

(i) Net residual attributable to the head office

The Branch is not a separate legal entity and hence it did not issue own equity instruments. The head office has a right to request redemption of its investment in the branch in cash. This obligation to redeem gives rise to a liability for the present value of the redemption amount. It is impractical to determine the exact amount of this liability as it is unknown when and if the head office will require redemption. As a practical expedient, the branch measures the 'Net residual attributable to head office' at the IFRS carrying value of the entity's net assets.

Profit distributions to the head office are recognized when distributed and included in the statement of profit and loss and other comprehensive income.

5. Significant accounting policies (continued)

(j) Income tax

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

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

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

Starting from 5 August 2019, based on the requirements of new Law No.06/L-105 on Corporate Income Tax, that is in force from then, insurance companies calculate income tax based on taxable profit or losses before tax for the period and their expenses are thus considered deductible. The Branch was paying tax on premiums written up to 4 August 2019, calculated as 5% of written premiums, while 5 August 2019 was considered as the beginning of a new period from tax perspective and for this period up to 31 December 2019, the Branch was calculating income tax, as 10% of taxable income during this period. Tax on premiums is presented as part of expenses.

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

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

(k) Premises and equipment

Items of premises and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The Branch recognises in the carrying amount of equipment the costs of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Branch and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred. Advance payments related to Property and Equipment are capitalised and presented in a separate category.

Depreciation on all categories of equipment is calculated on a reducing balance basis over the estimated useful lives of the assets.

5. Significant accounting policies (continued)

The annual depreciation rates are:

	%
Office furniture and equipment	20
Vehicles	20
Computers	20

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

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

(l) Right-of-use assets

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

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

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

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

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

	Useful life
Offices	3 – 10 years

(m) Intangible assets

Intangible assets that are acquired are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to profit or loss on a reducing balance basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The annual amortisation rates, based on the estimated useful lives for the current and comparative periods is 10 year.

(n) Impairment of non-financial assets

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment or intangible assets with definite useful lives. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year.

An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

(o) Provisions for liabilities and charges

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

5. Significant accounting policies (continued)

(p) Premium tax

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

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

(q) Lease liabilities

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Branch, the Branch's incremental borrowing rate is used, being the rate that the Branch would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Branch:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk; and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

(r) Revenue recognition

Premiums. The accounting policy in relation to revenue from insurance contracts is disclosed in note **Error! Reference source not found.** (b).

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

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

5. Significant accounting policies (continued)

(s) Policy acquisition costs

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

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

(t) Employee benefits

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

(u) Comparatives

Changes made by the Branch to the comparative figures of the financial statements due to errors in the prior year and their impact in the statement of financial position and profit or loss and other comprehensive income are presented below:

i. The Branch had a reported but not paid insurance claim during 2018, in amount of EUR 1,749,095 which was not accounted in the prior year financial statements. Due to the fact that the premium for the insured event was completely ceded to reinsurer and the Branch had no share in this claim, the Branch offset the reinsurance asset with the related insurance liability and no booking was made in the financial statements with this regard.

   As per IFRS 4 requirements, an insurance Company shall not offset:
   a) reinsurance assets against the related insurance liabilities; or
   b) income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

   Therefore, the Branch instead of offsetting the reinsurance asset with the related insurance liability should have recognized a reinsurance asset in amount of EUR 1,749,095 and insurance liability in amount of EUR 1,749,095. In addition, in its statement of profit or loss for the year ending 31 December 2018, the Branch should have reported the amount of EUR 1,749,095 of claims incurred expenses and the same amount as reinsurance share in claims incurred.

ii. Until 5 August 2019, the Branch has been subject to premium tax that has been provided for in the financial statements in accordance with legislation enacted or substantively enacted until then, in accordance with Republic of Kosovo Law on Corporate Income Tax no.05/L-029, insurance companies were required to calculate premium tax of 5% on their quarterly gross premiums. In the financial statements for the year ended 31 December 2018 the Branch accounted for this as income tax. However, given that it does not meet the income tax criteria, as set out by IAS 12, the comparative amounts have been restated accordingly, and the amount of tax paid was reclassified to expenses.

In addition, the Branch decided to change the presentation of Statement of Profit or Loss and Other Comprehensive Income and presents it as a single statement with the increase or decrease in net residual attributable to the head office for the year from operations, as there are is no Other Comprehensive Income.

Net residual attributable to the head office as at 31 December 2018 was not impacted because of the above.

5. Significant accounting policies (continued)

31 December 2018	As previously presented	Adjustment	Restated
ASSETS			
Reinsurance assets	4,164,106	(i) 1,749,095	5,913,201
TOTAL ASSETS	**21,121,259**	1,749,095	**22,870,354**
LIABILITIES			
Insurance contract liabilities	8,460,187	(i) 1,749,095	10,209,282
TOTAL LIABILITIES	**15,425,612**	1,749,095	**17,174,707**

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	Note	Year ended 31 December 2018 As previously presented	Adjustments	Year ended 31 December 2018 Restated
Net income		**7,132,789**	**-**	**7,132,789**
Claims paid gross		(4,221,434)	-	(4,221,434)
Reinsurer's share of claims paid		1,151,580	-	1,151,580
Change in gross insurance contract liabilities	i)	(497,691)	(1,749,095)	(2,246,786)
Change in reinsurance share of insurance contract liabilities	i)	(28,308)	1,749,095	1,720,787
Net insurance claims		**(3,595,853)**	**-**	**(3,595,853)**
Acquisition costs		(739,341)	-	(739,341)
Premium tax	ii)	-	(526,585)	(526,585)
Administrative expenses		(1,919,382)	-	(1,919,382)
Expenses		**(6,254,576)**	**(526,585)**	**(6,781,161)**
Financial costs		(59,571)	-	(59,571)
Profit before tax, distributions to head office and remeasurement of net residual balance with the head office	ii)	**818,671**	**(526,585)**	**292,086**
Income tax expense	ii)	(526,585)	526,585	-
Profit after tax and distributions to head office and remeasurement of net residual balance with the head office		**292,086**	**-**	**292,086**
Distribution to the head office		(192,000)	-	(192,000)
Increase in net residual attributable to the head office for the year from operations		**100,086**	**-**	**100,086**
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		**100,086**	**(100,086)**	**-**

5. Significant accounting policies (continued)

Statement of cash flows for the year ended 31 December 2018

31 December 2018	As previously presented	**Adjustment**	Restated
Profit before tax, distributions to head office and remeasurement of net residual balance with the head office	**818,671**	**(ii) (526,585)**	**292,086**
Increase in insurance contract liabilities	(497,691)	(i) (1,749,095)	(2,246,786)
Increase/(decrease) in reinsurance assets	(426,948)	(i) (1,749,095)	(2,176,043)
Income tax paid	(526,585)	(ii) 526,585	-
Net cash from operating activities	**638,625**	**-**	**638,625**

6. Insurance risk management

The Branch accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organizations that are directly subject to the underlying loss. The Branch is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Branch manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria.

Reinsurance is purchased to mitigate the effect of potential loss to the Branch from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis. Regulatory capital is also managed (though not exclusively) by reference to the insurance risk to which the Branch is exposed.

The Branch underwrites property, liability and motor risks primarily over twelve-month duration. The most significant risks arise from natural disasters, climate change and other catastrophes (i.e. high severity, low frequency events).

A concentration of risk may also arise from a single insurance contract issued to a particular demographic type of policyholder, within a geographical location or to types of commercial business. The relative variability of the outcome is mitigated if there is a large portfolio of similar risks. The concentration of claims provisions by type of contract is summarized below by reference to insurance liabilities

	31 December 2019			**31 December 2018**		
	Claims provision gross (note 21)	**Reinsurance (note 13)**	**Net**	**Claims provision gross (note 21)**	**Reinsurance (note 13)**	**Net**
Business line						
Motor vehicles	6,954,929	2,743,345	4,211,584	6,866,821	2,653,434	4,213,387
Border Insurance	760,627	-	760,627	756,367	-	756,367
Property	897,959	826,610	71,349	2,176,613	2,078,815	97,798
Health and accidents	526,244	87,164	439,080	400,281	64,833	335,448
Other	7,200	5,300	1,900	9,200	7,500	1,700
Total	**9,146,959**	**3,662,419**	**5,484,540**	**10,209,282**	**4,804,582**	**5,404,700**

The concentration of premiums by type of contract is summarized below by reference to insurance liabilities:

	31 December 2019			**31 December 2018**		
	Gross written premium (note 25)	**Premium ceded (note 26)**	**Net**	**Gross written premium (note 25)**	**Premium ceded (note 26)**	**Net**
Business line						
Motor vehicles	5,227,626	2,177,659	3,049,967	4,637,377	1,986,631	2,650,746
Border Insurance	712,219	-	712,219	643,776	-	643,776
Property	1,878,981	1,669,708	209,273	2,114,690	1,886,409	228,281
Health and accidents	2,248,806	110,016	2,138,790	2,101,291	102,618	1,998,673
Other	851,846	796,735	55,111	712,624	606,147	106,477
Total	**10,919,478**	**4,754,118**	**6,165,360**	**10,209,758**	**4,581,805**	**5,627,953**

6. Insurance risk management (continued)

The maximum exposure to insurance risk is presented below,

	2019	2018
	Maximum exposure to insurance risk*	**Maximum exposure to insurance risk***
Business line		
Motor vehicles	44,805,600,000	37,563,600,000
Casco	43,444,877	47,976,410
Property and causality	1,480,268,201	1,139,732,600
Other	384,612,000	469,514,117
Total	**46,713,925,078**	**39,220,823,127**

***** Maximum exposure to insurance risk is in gross basis and does not include the reinsurance portion. With regard to Motor Vehicles, the exposure is based on Law on compulsory motor liability insurance (Law No.04/L-018 dated 23th June 2011) for personal injury maximal EUR 1,000 thousand and for motor injury maximal EUR 200 thousand.

*All other policies have individual sum insured per policy.

Actual claims compared to estimates

Provision for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid is made at the reporting date.

The liability for reported claims (reported but not settled or "RBNS") is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case reserves are reviewed regularly and are updated as and when new information arises. The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than reported claims. Branch's actuaries predominantly assess IBNR provisions using statistical techniques extrapolating historical data in order to estimate ultimate claims costs. To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- economic, legal, political and social trends (resulting in different than expected levels of inflation, unemployment rate, changes in legislation, political instability, force majeure etc);
- changes in the mix of insurance contracts incepted;
- random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The following table shows actual claims incurred compared to previous estimates for the year ended:

	2019	2018	2017	2016	2015
RBNS					
Opening claim estimates	7,192,974	5,006,430	4,234,210	3,804,282	3,405,432
Actual results related to claims incurred	3,464,489	1,053,503	542,789	726,853	1,062,725
Closing claim estimates	4,343,312	4,781,310	3,703,450	3,133,727	2,765,280
Run off in EUR	**(614,827)**	**(828,383)**	**(12,029)**	**(56,298)**	**(422,573)**
Run off in %	**(8.55%)**	**(16.55%)**	**(0.28%)**	**(1.48%)**	**(12.4%)**
IBNR					
Opening claim estimates	1,236,421	1,371,073	1,130,905	978,792	932,138
Actual results related to claims incurred	483,658	373,515	245,926	314,691	301,820
Closing claim estimates	739,798	614,753	796,198	919,756	494,248
Run off in EUR	**12,965**	**382,805**	**88,781**	**(255,655)**	**136,070**
Run off in %	**1.05%**	**27.92%**	**7.85%**	**(26.12%)**	**14.6%**
Total run off	**(601,862)**	**(445,578)**	**76,752**	**(311,953)**	**(286,503)**

6. Insurance risk management (continued)

Technical provision amounting to EUR 1,697,387 (2018: EUR 1,500,332) for Border and Guarantee offer Lines of business are not included in the analysis above as the reserve for these products is calculated by the actuaries of Kosovo Insurance Bureau.

The total negative run-off as presented above, is attributable to the negative run off of EUR 615 thousand of RBNS, which is to some extent offset by the positive run-off of EUR 13 thousand in IBNR.

The negative run-off in RBNS is attributable to the combined effect of the paid claims during the year being higher compared to allocated reserve in previous year, as well as update of current reserve based on latest available information and past run-off experience. The later prevails with 63% participation compared to 37% of the former, due to managements proactive approach to update the reserves so that they represent as accurately as possible, the future estimated cash outflows.

Management reviews claims estimates and assumptions based on actual claim development and makes appropriate adjustments to claim methodologies.

Liability adequacy test

Insurance liabilities are calculated by using historical assumptions. The liability adequacy test for non-life insurance is limited to the unexpired portion of existing contracts. It is performed by comparing the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date with the amount of unearned premiums in relation to such policies after deduction of capitalized direct costs related to the insurance policy.

Expected cash flows relating to claims and expenses are estimated by reference to the experience during the expired portion of the contract, adjusted for significant individual losses which are not expected to recur.

LAT	**DMTPL-DMTPL+**	**Border**	**Casco**	**Property & Other**	**Health**	**Total**
Gross Written Premium	4,575,937	712,219	651,689	2,730,827	2,248,806	10,919,478
UPR 31.12.18	2,073,615	33,282	254,387	1,161,757	184,035	3,707,076
UPR 31.12.19	2,418,330	53,586	296,492	1,080,760	214,064	4,063,232
DAC 31.12.19	521,532	4,299	50,491	107,993	53,098	737,413
Payment 2019 (AY 2019)	727,452	79,988	335,097	43,571	911,708	2,097,816
RBNS 31.12.19 (AY 2019)	602,747	190,210	86,650	541,683	146,047	1,567,337
IBNR+IBNER 31.12.19 (AY 2019)	439,070	104,464	32,520	73,162	98,679	747,894
Administrative Expenses	556,733	86,652	79,288	332,247	273,602	1,328,522
Claims Ratio	42%	54%	75%	23%	52%	42%
Costs Ratio	13%	13%	13%	12%	12%	13%
Combined Ratio	55%	67%	88%	35%	64%	54%
URR	**-**	**-**	**13,511**	**-**	**-**	**-**

6. Insurance risk management (continued)

Claim development

The following table shows the gradual development of the estimate of ultimate loss according to claims incurred during the year. The estimate changed in individual periods depending on the actual claims paid. The gross amount of the provisions is the total of RBNS provision.
The comparison of statistical estimation of sufficient provisions with gross amount of provisions suggests sufficient levels of the provisions for insurance claims. Claim estimates for lines of business with non-material claims incurred or estimated are not included:

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Total
Estimate of cumulative claims											
- At end of underwriting year	3,448,491	3,204,020	3,792,345	2,830,042	4,164,518	3,715,972	2,858,953	10,050,515	3,199,015	10,456,709	47,720,580
- One year later	-	6,120,958	4,390,553	3,386,214	4,800,054	4,002,857	2,746,081	9,293,313	4,079,892	7,967,038	46,786,960
- Two years later	-	-	4,304,363	3,629,256	4,959,121	4,158,943	3,053,115	9,503,854	4,094,473	7,631,228	**41,334,353**
- Three years later	-	-	-	3,572,252	5,239,225	4,226,620	2,921,881	9,601,091	4,343,759	7,866,925	**37,771,753**
- Four years later	-	-	-	-	5,261,560	4,406,853	2,914,516	9,619,160	4,537,623	8,191,574	**34,931,286**
- Five years later	-	-	-	-	-	4,477,246	3,018,611	9,875,435	4,496,279	8,413,189	**30,280,760**
- Six years later	-	-	-	-	-	-	2,979,046	10,091,664	4,261,936	8,584,626	**25,917,272**
- Seven years later	-	-	-	-	-	-	-	9,995,533	4,285,420	8,613,533	**22,894,486**
- Eight years later	-	-	-	-	-	-	-	-	4,299,717	8,896,574	**13,196,291**
- Nine years later	-	-	-	-	-	-	-	-		9,222,733	**9,222,733**
Estimate of cumulative claims	3,448,491	6,120,958	4,304,363	3,572,252	5,261,560	4,477,246	2,979,046	9,995,533	4,299,717	9,222,733	**53,681,899**
Cumulative payments	**2,264,478**	**5,043,243**	**3,632,554**	**3,052,741**	**4,490,292**	**3,718,505**	**2,701,877**	**9,518,586**	**3,909,310**	**8,003,387**	**46,334,973**
Value recognized in the balance sheet	**1,184,013**	**1,077,715**	**671,809**	**519,511**	**771,268**	**758,741**	**277,169**	**476,947**	**390,407**	**1,219,346**	**7,346,926**

The amount of EUR 7,346,926 represents the insurance contract liabilities for the Reported but not Settled claims as of 31 December 2019, in amount of EUR 6,457,388 and the reserve for the Compensation fund in amount of EUR 889,538. As such it does not include the IBNR reserve in amount EUR 1,644,389 and the reserve for the Claims Handling Cost in amount of EUR 155,644.

6. Insurance risk management (continued)

Assumptions and sensitivities

The risks associated with the non-life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Branch uses statistical and actuarial techniques including indicators such as the expected loss ratio.

The Branch considers that the liability for non-life insurance claims recognized in the separate statement of financial position is adequate. However actual experience will differ from the expected outcome.

An overview of claim loss and combined ratio for the year 2019 and 2018 is as below:

	2019	**2018**
Claim ratio (Net insurance claims/net insurance premium)	66%	64%
Expense ratio (Net expenses/net insurance premium)	41%	36%
Combined ratio (Claim ratio + Expense Ratio)	107%	100%

The results of the sensitivity analysis showing the impact on (loss)/profit before tax, distributions to head office and remeasurement of net residual balance with the head office are set out below. For such sensitivity, the impact of a change in a single factor is shown, with other assumptions unchanged.

	Impact	**2019**	**2018**
Claim ratio			
5% increase in claim ratio	loss	(193,140)	(179,793)
5% decrease in claim ratio	gain	193,140	179,793
Expense ratio			
5% increase in expense ratio	loss	(119,692)	(99,547)
5% decrease in expense ratio	gain	119,692	99,547
Combined ratio			
5% increase in combined ratio	loss	(312,832)	(279,339)
5% decrease in combined ratio	gain	312,832	279,339

7. Financial Risk Management

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

Market risk

Market risk includes three types of risk:

- currency risk – the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.
- fair value interest rate risk – the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Branch is not exposed to this risk given that it does not hold any bonds at FV.
- price risk – the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk embodies not only the potential for loss but also the potential for gain.

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.
Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

7. Financial Risk Management (continued)

Currency risk

The Branch operates in one business segment and undertakes transactions substantially all in EUR to satisfy regulatory and self-imposed capital requirements. Currency risk in the investment portfolio is managed using assets/liabilities matching principles. As at 31 December 2019 and 2018 there are no financial assets and liabilities in currencies other than EUR and therefore the Branch is not exposed to currency risk.

Interest rate risk

Interest rate risk is comprised of the risk effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. Interest rates received and/or paid by the Branch on a financial instrument are fixed. The interest rate profile of the Branch's interest-bearing financial instruments as reported as at 31 December 2019 and 2018 is as follows.

	Note	31 December 2019	31 December 2018
Fixed-rate instruments			
Interest bearing financial assets			
Securities held at amortised cost	14	4,297,031	4,296,050
Term deposits with banks	15	9,596,947	9,793,592
Interest bearing financial liabilities			
Reinsurance deposit	23	(2,450,968)	(2,440,182)
Lease liabilities	11	(1,046,168)	-
Total		**10,396,842**	**11,649,460**

A change of 100 basis points in interest rates would have increased or decreased equity by EUR 103,968 (2018: EUR 116,495 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Branch. In the normal course of its business as premiums are received, these funds are invested to pay for future policy holder obligations. The Branch is exposed to credit risk on its debt securities held to maturity, term deposits, insurance receivable and reinsurance counterparties. The Branch has established internal procedures and guidelines where the reinsurance partners should have ratings of BBB- or higher rates from S&P, Moody or AM Best and comply with requirements of the VIG Reinsurance Security Rules. The Branch manages its exposure to credit risk on a regular basis by closely monitoring its exposure to debt securities and terms deposit counterparties.

The Branch's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position as follows. Quality of financial and insurance assets and liabilities is disclosed in the respective notes.

	Note	31 December 2019	31 December 2018
Reinsurance assets	13	4,614,791	5,913,201
Securities held at amortised cost	14	4,297,031	4,296,050
Term deposits with banks	15	9,596,947	9,793,592
Insurance and other receivables	17	1,327,892	731,114
Other assets	18	347,291	368,579
Cash and cash equivalents	19	928,589	672,808
Maximum exposure to credit risk		**21,112,541**	**21,775,344**

No objective indications for impairment have been identified by the Branch on the other financial assets as at the reporting date. Other financial assets such as cash equivalents and term deposits are neither past due nor impaired.

7. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Branch cannot meet its obligations associated with financial liabilities as they fall due. Liquidity risk is moderately inherent to the Branch's business as certain assets purchased and liabilities sold could have liquidity characteristics that are specific. If the Branch would require significant amounts on short notice in excess of normal cash requirements it may face difficulties to obtain attractive prices. Nevertheless, the Branch has access to borrowings as at 31 December 2019 and 2018. The Branch manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.
The Branch's financial assets and liabilities as of 31 December 2019, have the following maturities:

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Total
Financial Assets				
Cash and cash equivalents	928,589	-	-	**928,589**
Term deposits with banks	426,947	4,870,000	4,300,000	**9,596,947**
Insurance and other receivables	1,297,410	28,473	2,009	**1,327,892**
Securities held at amortised cost	75,923	2,406,579	1,814,529	**4,297,031**
Reinsurance assets	3,708,837	854,976	50,978	**4,614,791**
Other assets	107,106	-	-	**107,106**
Total Financial Assets	**6,544,812**	**8,160,028**	**6,167,516**	**20,872,356**
Financial Liabilities*				
Insurance contract liabilities	3,988,253	3,358,673	1,800,033	**9,146,959**
Unearned premium reserves	198,702	3,659,824	218,217	**4,076,743**
Reinsurance deposit	1,870,675	-	580,293	**2,450,968**
Lease liabilities	34,962	104,886	1,063,313	**1,203,161**
Insurance and other liabilities	1,146,984	29,618	-	**1,176,602**
Total Financial Liabilities	**7,239,576**	**7,153,001**	**3,661,856**	**18,054,433**
Net Liquidity Position	**(694,764)**	**1,007,027**	**2,505,660**	**2,817,923**

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

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Total
Assets				
Cash and cash equivalents	672,808	-	-	**672,808**
Term deposits with banks	893,592	5,430,000	3,470,000	**9,793,592**
Insurance and other receivables	701,488	27,220	2,406	**731,114**
Securities held at amortised cost	75,923	-	4,220,127	**4,296,050**
Reinsurance assets	4,299,063	995,243	618,895	**5,913,201**
Other assets	115,498	-	-	**115,498**
Total Financial Assets	**6,758,372**	**6,452,463**	**8,311,428**	**21,522,263**
Liabilities				
Insurance contract liabilities	5,273,182	3,400,124	1,535,976	**10,209,282**
Unearned premium reserve	181,579	3,344,456	199,413	**3,725,448**
Reinsurance deposit	1,920,053	-	520,129	**2,440,182**
Insurance and other liabilities	779,662	4,955	15,178	**799,795**
Total Financial Liabilities	**8,154,476**	**6,749,535**	**2,270,696**	**17,174,707**
Net Liquidity Position	**(1,396,104)**	**(297,072)**	**6,040,732**	**4,347,556**

In the liquidity position of the Branch, disclosed above for both 2019 and 2018, the undiscounted expected cash inflows and outflows have been disclosed respectively. As far as insurance contract liabilities are concerned, the expected undiscounted cash outflows have been disclosed assuming that mandatory maximum period of settlement, as per legislation in force, will be respected. Nevertheless, situations may occur where the Branch and the claimant do not share the same views regarding the assessment of the claim, hence they might end up resolving the matter in a court process, which requires a longer period of time than originally anticipated to make the verdict.

7. Financial Risk Management (continued)

Capital risk management

The Branch has no capital according to local legislation. However, the Central Bank of Kosovo requires branches of foreign entities to deposit a specified amount as charter capital. Thus, the Branch presents the amount as charter capital in its statement of financial position. The Branch manages the charter capital amount to ensure that adequate levels are maintained for the Branch to be able to continue as a going concern and comply with the regulators' capital requirements, while maximising the return to stakeholders through an optimisation of debt and equity balances. As at 31 December 2019 and 31 December 2018, the Branch met all capital requirements, including solvency margin and ratio of assets covering insurance contract liabilities.

The Branch shall comply with local legislation, including the rules and regulations imposed by the Central Bank of Kosovo. According to the Central Bank of Kosovo Regulation “Regulation on calculation of the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers ”, Article 8, In cases when one or several risks are included in Classes 10 to 15 referred to in Article 7 of the Law on Insurances, the guarantee fund cannot be lower than 3,200,000 (three millions and two hundred thousands) Euro.

	Note	2019	2018
Total net residual attributable to the head office including regulatory capital	20	5,611,923	5,695,647
Premium Result Solvency Calculation		1,289,801	1,396,193
Claims Result Solvency Calculation		917,198	833,873
150% of required solvency margin (1)		2,328,551	2,132,642
Guarantee Fund (2)		3,200,000	3,200,000
Required solvency margin (higher between 1 and 2)		3,200,000	3,200,000
Branch's actual solvency level		4,228,420	5,074,264
In % to regulatory capital		**132.14%**	**158.57%**

Other risks

Changes in governmental regulations in the business segments in which the Branch operates may affect profitability. The insurance business is subject to comprehensive and developing supervision. The primary purpose of such regulations is to protect policyholders. Changes in existing insurance laws and regulations may affect the way in which the Branch 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.

8. Critical accounting estimates and judgments in applying accounting policies

The Branch makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Policyholder claims and benefits

The estimation of the ultimate liability arising from claims made under insurance contracts is the Branch's most critical accounting estimate. The Branch's decisions for reported and unreported losses and establishing resulting provisions and related reinsurance recoverable are annually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process is based on the assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Insurance risk management is discussed in detail in Note 6, whilst insurance contract provisions are analysed in Note 20.

8. Critical accounting estimates and judgments in applying accounting policies (continued)

Insurance receivables and impairment losses

Insurance and other receivables are initially recognized at fair value. Subsequently receivables are measured at amortised cost less impairment losses. Evaluation of allowance for impairment losses is also a critical estimate performed by management. Insurance receivables are assessed for impairment on each reporting date. Insurance receivables more than one year past due are provided for in full unless there is high probability that they will be collected. Such probability exists when the Branch has long term relationship with significant clients or when the Branch procures goods and/or services from the insured and receivables are settled on a net basis. Insurance receivables less than one year past due are assessed individually in case there are significant and are provided if they are indications that those receivables will not be collected.

Insurance receivables less than one year past due are also assessed on a collective basis grouped based on the credit risk characteristics of the receivables, usually days past due at the reporting date. Percentages of provisioning applied for each aging category of insurance receivables less than one year past due represent management's best estimate of credit losses incurred and are based on prior years history of recoverability and market experience.

9. Fair value disclosure

Fair value measurements for measurement and/or presentation purposes are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The Branch has no assets measured at fair value at the reporting date.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows. Insurance receivables are not included as they are not required to be disclosed at fair values.

			Fair value	
	Carrying value	**Level 1**	**Level 2**	**Level 3**
31 December 2019				
Term deposits with banks	9,596,947	-	9,600,275	-
Securities held at amortised cost	4,297,031	-	4,802,715	-
Reinsurance assets	4,614,791	-	4,614,791	-
Other financial assets	107,106	-	107,106	-
Insurance and other receivables	1,327,892	-	1,327,892	-
Cash and cash equivalents	928,589	928,589	-	-
31 December 2018				
Term deposits with banks	9,793,592	-	9,827,293	-
Securities held at amortised cost	4,296,050	-	4,704,436	-
Reinsurance assets	5,913,201	-	5,913,201	-
Other financial assets	115,498	-	115,498	-
Insurance and other receivables	731,114	-	731,114	-
Cash and cash equivalents	672,808	672,808	-	-

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Fair values of securities carried at amortised cost were determined based on quoted bid prices published by the Central Bank of Kosovo for the same instrument taking into consideration maturity similar to the maturities of instruments held by the Branch. Financial liabilities of the Branch are short-term and their carrying values usually equal their fair values.

10. Property and equipment

Movements during 2019 and 2018 are as follows:

	Office furniture and equipment	Lease hold improvements	Vehicles	Computers	Total
Cost					
At 1 January 2018	462,598	10,753	316,022	146,994	936,367
Additions	27,275	6,398	70,068	17,668	121,409
Disposals	(861)	-	(86,837)	-	(87,698)
At 31 December 2018	**489,012**	**17,151**	**299,253**	**164,662**	**970,078**
Additions	35,645	52,496	57,966	74,466	220,573
Disposals	-	-	(94,202)	-	(94,202)
At 31 December 2019	**524,657**	**69,647**	**263,017**	**239,128**	**1,096,449**
Accumulated Depreciation					
At 1 January 2018	(388,372)	-	(223,515)	(89,232)	(701,119)
Depreciation for the year	(18,662)	(3,158)	(22,682)	(14,203)	(58,705)
Disposal	804	-	79,040	-	79,844
At 31 December 2018	**(406,230)**	**(3,158)**	**(167,157)**	**(103,435)**	**(679,980)**
Depreciation for the year	(30,626)	(13,993)	(35,543)	(18,392)	(98,554)
Disposals	-	-	87,612	-	87,612
At 31 December 2019	**(436,856)**	**(17,151)**	**(115,088)**	**(121,827)**	**(690,922)**
Carrying amount					
At 31 December 2018	**82,782**	**13,993**	**132,096**	**61,227**	**290,098**
At 31 December 2019	**87,801**	**52,496**	**147,929**	**117,301**	**405,527**

11. Right of use assets and lease liabilities

The Branch leases include rented building for offices. Rental contracts are typically made for fixed periods of 1 year to 10 years but may have extension options as described below.

Until 31 December 2018 leases of premises were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Branch.

The right of use assets by class of underlying items is analysed as follows:

	Buildings
Carrying amount at 1 January 2019	**1,155,811**
Additions	215,544
Disposals	(205,325)
Depreciation charge	(137,570)
Carrying amount at 31 December 2019	**1,028,460**

Interest expense on lease liabilities was EUR 43,400.

11. Right of use assets and lease liabilities (continued)

Expense relating to short-term lease payments not included in lease liabilities included in Administrative expenses of 2019 was EUR 79,291.

	2019
Expense relating to short-term leases	79,291
Expense relating to leases of low-value assets that are not shown above as short-term leases	-
Total	**79,291**

Total cash outflow for leases in 2019 was EUR 160,846.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in all the lease agreements signed by the Branch. These are used to maximise operational flexibility in terms of managing the assets used in the Branch's operations.

The table below sets out an analysis of liabilities from financing activities and the movements in the Branch's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:

	Lease liabilities	**Total**
Liabilities from financing activities at 31 December 2018	-	-
Adoption of new standards	1,155,811	1,155,811
Liabilities from financing activities at 1 January 2019	**1,155,811**	**1,155,811**
Cash outflows during the year	(160,846)	(160,846)
Terminated lease agreements	(207,769)	(207,769)
New leases	215,544	215,544
Accrued interest	43,428	43,428
Liabilities from financing activities at 31 December 2019	**1,046,168**	**1,046,168**

12. Intangible assets

	Software
Cost	
At 1 January 2018	**139,923**
Additions	474
At 31 December 2018	**140,397**
Additions	249,194
At 31 December 2019	**389,590**
Accumulated amortisation	
At 1 January 2018	**(43,366)**
Amortization for the year	(16,152)
At 31 December 2018	**(59,518)**
Amortization for the year	(22,366)
At 31 December 2019	**(81,884)**
Carrying amount	
At 31 December 2018	**80,879**
At 31 December 2019	**307,706**

13. Reinsurance assets

The reinsurer's share of insurance liabilities is as follows:

	31 December 2019	31 December 2018
Reinsurer's share on UPR		
Motor vehicles	-	-
Property	562,855	742,786
Health and accidents	564	552
Other	388,953	365,281
	952,372	**1,108,619**
Reinsurance share on claims reserves		
Motor vehicles	2,743,344	2,653,434
Property	826,610	2,078,815
Health and accidents	84,488	62,156
Other	7,977	10,177
	3,662,419	**4,804,582**
Total	**4,614,791**	**5,913,201**

The Branch's reinsurance assets are not secured and are neither past due nor impaired. The assets are monitored according to the credit rating.

For the years ended 31 December 2019 and 2018 the credit risk assessment of the reinsurance premiums ceded and reinsurance assets by rating of reinsurer are as follows:

	2019				**2018**			
	Premiums ceded		**Reinsurance assets**		**Premiums ceded**		**Reinsurance assets**	
	in EUR	**% of total**	**in EUR**	**% of total**	**in EUR**	**% of total**	**in EUR**	**% of total**
Rating								
A+	3,962,302	83.34%	3,794,057	82.22%	3,647,367	79.61%	5,422,310	91.70%
A	193,664	4.07%	71,881	1.56%	200,408	4.37%	91,245	1.54%
AA	232,464	4.89%	65,625	1.42%	124,185	2.71%	36,758	0.62%
AA-	251,072	5.28%	72,024	1.56%	114,585	2.50%	728	0.01%
A-	65,900	1.39%	18,019	0.39%	79,814	1.74%	42,379	0.72%
BB+	-	0.00%	-	0.00%	-	0.00%	-	0.00%
BBB	-	0.00%	-	0.00%	834	0.02%	-	0.00%
BBB-	-	0.00%	-	0.00%	27,724	0.61%	-	0.00%
No rating	48,716	1.02%	593,185	12.85%	386,888	8.44%	319,781	5.41%
Total	**4,754,118**	**100.00%**	**4,614,791**	**100.00%**	**4,581,805**	**100%**	**5,913,201**	**100%**

The amount of EUR 593 thousand (2018: EUR 320 thousand), represent the reinsurance assets, that are receivable from the reinsurers that are not rated by the agencies.

14. Securities held at amortized cost

	31 December 2019	31 December 2018
Total at nominal value	4,260,000	4,260,000
Unamortized premium	(38,892)	(39,873)
Accrued interest	75,923	75,923
Total	**4,297,031**	**4,296,050**

Investment securities include government bonds of the Republic of Kosovo at carrying value of 4,297,031 EUR (2018: 4,296,050). The government bonds have been purchased using the primary market and secondary market through Raiffeisen Bank Kosovo and Banka Kombetare Tregtare and maturity is three to ten years.
Although bonds of Government of the Republic of Kosovo are not rated, public debt currently is at levels below 20% of GDP and the projected growth in the medium term is expected to remain below 30% of GDP, ceiling which is considered as prudent for Kosovo. Such level of public debt together with the overall budget stability that require any budget deficit to remain within the 2% of the GDP following IMF fiscal rule, are key factors in assessing Kosovo Government instruments as stable. The rating of those two financial institutions is disclosed in note 15.

15. Term deposits with banks

The breakdown of term deposits with maturities exceeding three months is as follows:

Term Deposits	Agency	Group Rating	31 December 2019	31 December 2018
Banka Kombetare Tregtare	Fitch	BB-	3,000,000	2,800,000
Banka per Biznes	n/a	-	1,450,000	1,200,000
TEB	Fitch	B+	720,000	1,800,000
NLB Kosova	Moody's	BAA2	2,400,000	2,400,000
Centra Bank of Kosovo	n/a	-	320,321	320,501
IS Bank	Fitch	BB+	1,600,000	1,200,000
Accrued interest			106,626	73,091
Total			**9,596,947**	**9,793,592**

The Branch's cash and cash equivalents and term deposits are placed with the following financial institutions:

			31 December 2019		31 December 2018	
	Agency	Rating	Cash and deposits	Out of which Cash (note 19)	Cash and deposits	Out of which Cash (note 19)
ProCredit Bank	Fitch	BBB	97,605	97,605	39,080	39,080
Raiffeisen Bank	Moody's	A3	1,819	1,819	14,356	14,356
Banka Kombetare Tregtare	Fitch	BB-	3,624,552	605,796	3,323,419	501,895
Banka per Biznes	n/a	-	1,492,888	11,357	1,236,290	28,985
TEB	Fitch	B+	924,849	192,562	1,844,245	24,598
Central Bank of Kosovo	n/a	-	320,322	-	320,501	-
Banka Ekonomike	n/a	-	78	78	1,410	1,410
NLB Kosovo	Moody's	BAA2	2,423,467	11,684	2,468,981	56,804
IS Bank	Fitch	BB+	1,639,956	7,688	1,218,118	5,680
Total cash and deposits with banks			**10,525,536**	**928,589**	**10,466,400**	**672,808**

Term deposit accounts are maintained with domestic financial institutions. The interest rate on term deposits during 2019 was in the range of 1.20% to 2.91% per annum (2018: 0.9 % to 2.91% per annum). Pursuant to the Rule 8 approved by the Central Bank of Kosovo a minimum collateral amount of EUR 3,200 thousand is determined to be kept with CBK account at least with 10% and the remainder with other commercial banks, but no more than 30% with a single bank.

16. Deferred acquisition costs

Deferred acquisition costs at year end comprise:

	31 December 2019	31 December 2018
Commission	303,568	334,538
Sales operators salaries	171,262	129,253
Premium tax	132,726	204,915
Supervisory tax	62,382	55,327
Total	**669,938**	**724,033**

Movement in deferred acquisition costs are as follows:

	2019	2018
As at 1 January	724,033	525,194
Increase in deferred acquisition costs	894,359	938,180
Deferred acquisition costs expensed	(948,454)	(739,341)
At 31 December	**669,938**	**724,033**

17. Insurance and other receivables

Receivables from agents and customers comprised the following:

	31 December 2019	31 December 2018
Receivables from policy holders	1,278,118	695,195
Receivables from agents	94,452	79,471
Provision for insurance receivables	(44,678)	(43,552)
Total	**1,327,892**	**731,114**

Movement in allowance for impairment losses are as follows:

	2019	2018
Balance as at 1 January	**44,171**	**139,384**
Allowance/(release) charge to profit or loss	507	(4,295)
Write-off	-	(91,537)
Balance as at 31 December	**44,678**	**43,552**

The Branch manages its exposure to credit risk on a regular basis by closely monitoring its insurance receivables, Insurance and other receivables as of 31 December 2019 and 2018 by ageing are as follows:

	31 December 2019	%	31 December 2018	%
less than 1 month	441,958	33%	544,976	75%
1 to 3 months	855,452	64%	156,512	21%
3 months to 1 year	28,473	2%	27,220	4%
more than 1 year	2,009	0%	2,406	0%
Total	**1,327,892**	**100%**	**731,114**	**100%**

17. Insurance and other receivables (continued)

The credit quality of insurance and other receivables is presented below:

	31 December 2019	31 December 2018
Neither past due nor impaired	93,928	250,242
Past due but not impaired	1,203,482	450,627
Impaired	75,160	73,797
Total gross receivables	**1,372,570**	**774,666**
Less: Allowance for impairment loss	(44,678)	(43,552)
Total	**1,327,892**	**731,114**

After the reporting date, an amount of EUR 65,735 of receivables classified as neither past due nor impaired has been collected. The amount of EUR 28,193 became past due. Similarly, EUR 1,149,373 of receivables classified as past due but not impaired have been collected too.

18. Other assets

Other assets comprise:

	31 December 2019	31 December 2018
Guarantee with Kosovo Insurance Bureau	125,000	125,000
Receivables from insurance companies	107,106	115,498
Other receivables	115,185	128,081
Total	**347,291**	**368,579**

Guarantee with Kosovo Insurance Bureau is related to Memorandum of Understanding signed on 23 June 2015, between the Republic of Serbia and the Republic of Kosovo regarding mutual recognition and acknowledgement of MTPL and processing and payment of claims as a result of the accidents caused by vehicles in their jurisdiction.

19. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash at banks in EUR	928,589	672,808
Total	**928,589**	**672,808**

The credit rating of financial institutions with whom Branch holds cash and cash equivalents are presented in the note 15

20. Charter capital

The net residual attributable to the head office is comprised of the required charter capital which is deposited in order to obtain and maintain the licence to underwrite insurance risks in Kosovo and the remaining accumulated net residual attributable to the head office. Even though the entity is a branch, the charter capital is required to be deposited by the head-office based on the Insurance Law and the Regulation “On calculation of the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers” dated 23 February 2017. The branch is required to have a minimum amount of charter capital of EUR 3,200 thousand fully paid at any time. These funds are deposited with CBK and the other commercial banks (Notes 14, 15). The net residual attributable to the head office is altogether considered in calculating regulatory ratios by the Branch.

21. Insurance contracts liabilities

	31 December 2019	31 December 2018
As at 1 January		
Gross insurance liabilities for losses and loss adjustments	10,209,282	7,962,497
Reinsurance recoverable (note 13)	(4,804,582)	(3,083,795)
Net insurance liabilities for losses and loss adjustments	**5,404,700**	**4,878,702**
Claims incurred	7,455,447	4,719,123
Reinsurers' share in claims incurred	(3,592,655)	(1,123,271)
Claims paid	(6,768,677)	(4,221,434)
Recovered by reinsurers	2,985,725	1,151,580
Net insurance liabilities for losses and loss adjustments	**5,484,540**	**5,404,700**
Reinsurance recoverable (note 13)	3,662,419	4,804,582
Gross insurance contract liabilities	**9,146,959**	**10,209,282**
Gross change in insurance claims reserves	686,772	2,246,786
Less: Reinsurers share	(606,931)	(1,720,787)
Change in claims insurance liabilities, net	**79,841**	**525,999**

A significant amount 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.

During the year ended 31 December 2019 the Branch contributed to the Compensation Fund for Compulsory Insurance ("Compensation Fund") an amount of EUR 431 thousand (2018: EUR 321 thousand). Kosovo Insurance Board manages the Compensation Fund. Its role is to pay insurance claims related to accidents caused by uninsured vehicles, unknown vehicles or other specified events. It is funded equally by all the insurance companies in the territory of Kosovo licensed by the CBK to sell TPL insurance.

22. Unearned premium reserve

Unearned premium reserve by product is comprised as follows:

Product	31 December 2019	Change in the Period	31 December 2018	Change in the Period	31 December 2017
Motor vehicles	2,781,919	402,263	2,379,656	(25,420)	2,405,076
Property	639,033	(139,266)	778,299	234,996	543,303
Health	214,064	30,029	184,035	47,043	136,992
Other	441,727	58,269	383,458	164,873	218,585
Total	**4,076,743**	**351,295**	**3,725,448**	**421,492**	**3,303,956**

	31 December 2019	31 December 2018
As at 1 January	3,725,448	3,303,956
Premiums written during the year (Note 25)	10,919,478	10,209,758
Less: premiums earned during the year	(10,568,183)	(9,788,266)
Balance at 31 December	**4,076,743**	**3,725,448**

22. Unearned premium reserve (continued)

	31 December 2019	31 December 2018
Change in gross unearned premium reserve	(351,295)	(421,492)
Change in reinsurers' share of unearned premium reserve other than MTPL and accidents	(156,246)	455,255
Change in reinsurer's share of unearned premium for MTPL and accidents	201,188	(56,159)
Net change in provision for unearned premium	**(306,353)**	**(22,396)**

23. Reinsurance deposit

The reinsurance deposit at 31 December 2019 includes the share of VIG Holding to the reserves for MTPL and Personal Accidents outstanding claims in amount of EUR 2,450,968 (2018: EUR 2,440,182). Based on the agreement between the parties, that is renewed each year, VIG Holding holds 50% of the share in the outstanding claims of MTPL and Personal accidents. In this regard, the Branch pays to VIG Holding an interest representative of time value of money, which for 2019 was EUR 45,986 (2018: 59,571). The deposit is utilised by the Branch to settle outstanding or future claims incurred that qualify for reinsurer's recovery based on the agreement between the parties which is renewed each year accordingly.

24. Insurance and other liabilities

Insurance and other payables comprise:

Insurance payable	31 December 2019	31 December 2018
Payable to reinsurers	843,949	334,508
Trade and other payables	106,252	120,894
VAT payable	102,673	69,752
Payables to employee	54,283	80,601
Other taxes payable	34,360	167,404
Social contributions payable	22,677	17,611
Payables to agents	12,408	9,025
Total	**1,176,602**	**799,795**

Trade and other payables are as follows:

	31 December 2019	31 December 2018
Payables to Central Bank of Kosovo	42,235	38,510
Payables to suppliers	36,757	60,482
Liabilities to policyholders-	19,371	17,483
Accrued expenses	7,889	4,419
Total	**106,252**	**120,894**

25. Gross written premiums

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

	2019	2018
Motor vehicles	5,227,626	4,637,377
Health and accidents	2,248,806	2,101,291
Property	1,878,981	2,114,690
Border insurance	712,219	643,776
Other	851,846	712,624
Total gross premiums written	**10,919,478**	**10,209,758**

Motor vehicle premiums are further detailed as follows:

	2019	2018
MTPL	4,575,937	4,100,668
CASCO	651,689	536,709
Total	**5,227,626**	**4,637,377**

Border insurance gross written premiums amounting to EUR 712 thousand (2018: EUR 644 thousand) relate to shared income from Kosovo Insurance Bureau (“KIB”), KIB was established under Law No, 04/L-018 on Compulsory Motor Vehicle Insurance”, Section 29, dated 23 June 2011 and administers the system to sell compulsory third party liability motor vehicle insurance (“TPL”) at the border of the Territory of Kosovo (the “pool”) to drivers of foreign registered vehicles not in possession of such insurance.

The operations of the pool are self-contained and the revenues, claims and overheads are shared between all insurance companies licensed in Kosovo 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 for the claims and other administrative costs of the pool and the membership activities of KIB. As of 31 December 2019, the Branch accounted for all the liabilities related to the pool.

26. Written premium ceded to reinsurers

Premiums as per products ceded to reinsurers, for the year are comprised as follows:

Premiums ceded to reinsurers	2019	2018
Motor vehicles	2,177,660	1,986,630
Health and accidents	110,016	102,618
Property	1,669,707	1,886,410
Other	796,735	606,147
Total	**4,754,118**	**4,581,805**

27. Other income

	2019	2018
Written of regressed claims	-	14,185
Other income	14,533	-
Total	**14,533**	**14,185**

28. Acquisition costs

	2019	2018
Motor vehicles	716,167	542,227
Health and accidents	181,802	149,402
Property	40,856	34,892
Other	9,629	12,820
Total	**948,454**	**739,341**

The acquisition costs for both years are entirely consisted of commissions of Branch's agents.

29. Administrative expenses

Marketing and administrative expenses for the year are comprised as follows:

	2019	2018
Salaries and Wages	809,868	728,370
Contributions to the insurance association	181,897	165,678
Contributions to CBK	150,365	137,832
Depreciation of Right of Use Asset	137,570	-
Depreciation and amortization	120,918	95,617
Rent and other maintenance costs	110,402	241,862
Office operating costs	96,807	82,812
Social security	82,721	77,821
IT costs	69,723	63,764
Advertising	58,987	58,294
Office supplies	58,554	64,982
Transportation	39,271	44,326
Services from third parties	27,919	26,397
Telecommunication	24,927	24,915
Travel expenses	20,817	16,847
Local taxes paid	5,715	4,992
Impairment of trade receivables	507	(4,295)
Other	137,811	89,168
Total	**2,134,779**	**1,919,382**

Rent expenses for the year ending 31 December 2018 amounted to EUR 224,121.

Other expenses for the year 2019 and 2018 are comprised as follows:

	2019	2018
Administration office expense	68,440	39,847
Membership fees tax	21,516	14,910
Fines and penalties	20,733	821
Auditing Costs	12,500	17,085
Other costs	6,690	1,872
Education costs	5,970	7,953
Representation Costs	1,962	6,680
Total	**137,811**	**89,168**

30. Reinsurance commission

Reinsurance commission for the year 31 December 2019 and 2018 are as follows:

	2019	2018
Motor vehicles	765,431	969,921
Property	180,842	156,616
Health and accidents	896	13,184
Other	82,316	54,652
Total	**1,029,485**	**1,194,373**

The reinsurance commission is calculated based on the reinsurance contract. The MTPL reinsurance commission is calculated based on the treaty contract the Branch has with the parent company VIG HOLDING. On quarterly basis is calculated the claims ratio for each contract (Accident Year) and such coefficient is used to define the limit of commission as it has a sliding scale framework.

31. Investment income and financial costs

Financial (expenses)/income	2019	2018
Investment income		
Interest income from accounts with banks	182,048	160,966
Interest income from treasury bills	209,111	157,708
	391,159	**318,674**
Financial costs		
Finance expenses	(45,986)	(59,571)
Interest expense lease	(40,984)	-
	(86,970)	**(59,571)**

The financial expenses and income are calculated using the effective interest rate method.

Finance expenses in amount of EUR 45,986 (2018: EUR 59,571) represent the interest expense for the reinsurance deposit (note 23).

32. Income taxes

a) Components of income tax expense

	2019	2018
Current tax expense	14,808	-
Deferred tax (expense)/credit	-	-
Total	**14,808**	**-**

b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

	2019	2018
(Loss)/profit before tax, distributions to head office and remeasurement of net residual balance with the head office	**(68,915)**	**292,086**
Theoretical tax charge at statutory rate of 10% (2018: 0%)	(6,892)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Net profit before 5th of August	(6,880)	-
- Non taxable income	(13,655)	-
- Other non-taxable expenses	38,245	-
Unrecognized deferred tax assets	4,000	-
Income tax charge for the year	**14,808**	**-**

The corporate income tax in amount of EUR 14,808 has been calculated by the Branch as per requirements of the Law no. 05/L -029 on corporate income tax which is in force starting from 5 August 2019. As per stipulations of this Law and other clarifications made by the tax authorities the insurance Companies in Kosovo are subject of premium tax of 5% of written premiums from 1 January 2019 to 4 August 2019. On the other hand, 5 August 2019 represents the beginning of a new fiscal period until 31 December 2019, and as such is taxed as 10% of the taxable income for this period.

Net loss before 5th of August 2019 is comprised of Net income of EUR 5,158 thousand and Net expenses in amount of EUR 5,174 thousand, respectively, which are not considered in income tax calculation for the year.

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

Non-taxable expenses in amount of EUR 40,741 represent the impact of the expenses incurred by the Branch, during the period 5 August to 31 December 2019, that are not deductible for Corporate income tax purposes.

The Branch has no unrecognised potential deferred tax assets in respect of unused tax loss carried forward. The deferred tax asset amount of EUR 4 thousand (2018: nil), derived from temporary differences due to different accounting and tax base of Insurance contract liabilities, Lease liabilities, Right of use asset, Property and equipment, Intangible assets and Reinsurance asset is deemed marginal by the management of the Branch, hence not recognized.

33. Commitment and contingencies

(i) Legal

In the ordinary course of business, the Branch is involved in various claims and legal actions. In the opinion of management, the ultimate settlement of these matters will not have a material adverse effect on the Branch's financial position or changes in net assets. Legal cases are common when claimants do not agree with the claim valuation performed by the Branch. Management evaluates claims using external and internal expertise including legal advice. Branch believes that these estimates are appropriate however acknowledges that the final outcome may be higher or lower than the amount provided. As at 31 December 2019 there were 378 outstanding cases where in aggregate outstanding reserve is EUR 3.4 million (2018: 359 claims where in aggregate outstanding reserve is EUR 3.4 million). The reserve for those cases is part of Insurance Contract Liabilities, namely RBNS reserve for 2019 and 2018, respectively.

(ii) Regulatory changes

Changes in governmental regulations in the business segments in which the Branch operates

The insurance business is subject to 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 Branch 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.

34. Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. During the year the Branch had the following transaction with related parties

	Relationship	2019	2018
Income			
Reinsurance Commission income			
Wiener Versicherung Gruppe	Parent company	777,014	989,336
VIG re zajišťovna	Entity under common control	148,181	117,831
Ray sigorta as	Entity under common control	561	6,931
Wiener städtische	Ultimate controlling entity	975	1,912
		926,731	**1,116,010**
Reinsurer's share of claims paid			
Wiener Versicherung Gruppe	Parent company	1,145,976	904,992
VIG re zajišťovna	Entity under common control	90,654	101,367
		1,236,630	**1,006,359**
Expenses			
Premium ceded to reinsurer			
Wiener Versicherung Gruppe	Parent company	(2,395,532)	(2,193,689)
VIG re zajišťovna	Entity under common control	(524,036)	(475,489)
Ray sigorta as	Entity under common control	(15,064)	(272,995)
Wiener städtische	Ultimate controlling entity	(11,249)	(16,784)
		(2,945,881)	**(2,958,957)**
Other Expenses			
Wiener Versicherung Gruppe	Parent company	(13,899)	(42,372)
		(13,899)	**(42,372)**
Management Compensation			
Gross salaries		(82,917)	(96,000)
Bonus		(44,000)	(50,000)
		(126,917)	**(146,000)**

34. Balances and Transactions with Related Parties (continued)

At each reporting date, the following related party amounts were included in the statement of financial position:

	Relationship	2019	2018
Management and Shareholders			
Assets			
Reinsurance assets			
Wiener Versicherung Gruppe	Parent company	2,642,282	2,649,541
VIG re zajišťovna	Entity under common control	575,338	685,518
Ray sigorta as	Entity under common control	555,248	225,385
Wiener städtische	Ultimate controlling entity	9,364	11,764
		3,782,232	**3,572,208**
Other receivables			
Ray sigorta as	Entity under common control	49,636	77,913
Intersig	Entity under common control	11,335	-
VIG re zajišťovna	Entity under common control	48,018	31,169
Sigma Interalbanian	Head office	1,083	-
		110,072	**109,082**
Liabilities			
Reinsurance Liabilities			
Wiener Versicherung Gruppe	Parent company	2,694,618	2,502,414
VIG re zajišťovna	Entity under common control	78,191	105,130
Ray sigorta as	Entity under common control	84,870	-
Wiener städtische	Ultimate controlling entity	6,190	10,566
		2,863,869	**2,618,110**
Other Payable			
Wiener Versicherung Gruppe	Parent company	5,663	1,216
		5,663	**1,216**

35. Events after the reporting date

Late in 2019 the news first emerged from China about the COVID-19 (Coronavirus). The situation at year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum. Lockdown and curfew are enforced in Kosovo since mid-March. Air travel is not allowed while land boarders are closed. Schools are closed, business activity in several industries unless essential is reduced to the minimum necessary. Movement of people and traffic are limited to specific hours during the day upon special permission given by the Government. Management considers that this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these financial statements, the future effects cannot be predicted.

The Branch continues to settle its obligations as they become due. Given the interdependence with the people's transportation and travels (affecting MTPL, Casco, Border etc.) which have been restricted, management expects the Branch to operate at a slower pace, amending financial objectives and adjusting operations to the circumstances. A decrease is expected in these LOBs as well as voluntary insurance. MTPL LOB, which is a compulsory premium and makes up the majority of the Gross Written Premium is expected to recover upon the normalization of the situation. Meanwhile, the limitations also result in lower claims. The ultimate impact of the situation is likely to be negative on the overall profitability and cash flows. On the other hand, projections cannot be precisely predicted at this time. The Brach has a good liquidity position, and its Net residual attributable to the head office as of 31 December 2019 amounts to EUR 5,611,923 which by EUR 2,411,923 greater than the minimum of EUR 3,200,000 required by the regulator, hence it may absorb potential negative impact should the situation remain unchanged for a reasonable period of time.
Management will continue to monitor the potential impact of the coronavirus pandemic and will take all possible measures to mitigate any adverse effects on the Branch's activity.

Other than the above, there are no events after the reporting date that would require either adjustments or additional disclosures in the financial statements.

36. Accounting Policies for Leases before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, Leases, are as follows.

Operating leases. Where the Branch is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Branch, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Supplementary Schedules

Annex I - Table for solvency calculation

		Prior 3	Prior 2	Prior 1	Current
1	**Table of cliams reserve**	**Prior 3**	**Prior 2**	**Prior 1**	**Current**
1.1	Requirements for outstanding claims at the beginning of the period	6,724,359	7,411,585	7,962,497	8,460,187
1.2	Paid claims	3,268,275	3,767,223	4,221,434	6,768,677
1.3	Requirements for outstanding claims at the end of the period	7,411,585	7,962,497	8,460,187	9,146,959
1.4	**Incurred losses (1.2 + 1.3) - 1.1**	**3,955,501**	**4,318,135**	**4,719,124**	**7,455,449**
1.5	**Average of incurred losses**			**4,330,920**	**5,497,569**
2	**Table of reinsurer's part of requirements**				
2.1	Reinsurance part for outstanding claims at the beginning of the period	2,344,630	2,619,185	3,083,795	3,055,487
2.2	Accepted reinsurance	779,082	730,568	1,151,580	2,985,725
2.3	Reinsurance part for outstanding claims at the end of the period	2,619,185	3,083,795	3,055,487	3,662,418
2.4	**Reinsurance part for incurred losses**	**1,053,637**	**1,195,178**	**1,123,272**	**3,592,656**
2.5	**Net incurred losses (retained claims)**				
2.6	**Retention level**	**2,901,864**	**3,122,957**	**3,595,852**	**3,862,793**
2.7	**Average level of retention**	**73%**	**72%**	**76%**	**52%**
				74%	**64%**
3	**Based on premiums**				
3.1	Gross written premiums			10,209,786	10,919,478
3.2	Change in Unearned Premium Reserves			(482,383)	(378,290)
3.3	For LoBs 11,12 and 13 GWP increase by 50%			324,991	394,963
3.4	Others (tax & reinsurance)			-	-
3.5	**Total**			**10,534,777**	**11,314,441**
3.6	First layer (fixed up to 10 million)			**10,209,786**	**10,919,478**
3.7	Second layer (more than 10 million)			**(482,383)**	**(378,290)**
3.8	Percentage of the first layer (fixed)			18%	18%
3.9	Percentage of the second layer (fixed)			16%	16%
3.10	**Result based on premiums**			**1,885,564**	**2,010,311**
3.11	Retention level			74%	64%
3.12	**Result of solvency based on premiums**			**1,396,193**	**1,289,801**
4	**Based on claims**				
4.1	Gross incurred claims (see table of claims)			4,331,342	5,498,326
4.2	First layer (fixed)			**7,000,000**	**7,000,000**
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**			**1,126,149**	**1,429,565**
4.7	Net and gross incurred claims ratio			74%	64%
4.8	**Minimum percentage**			**50%**	**50%**
5	**Result of solvency based on claims**			**833,873**	**917,198**
5	**Required solvency**				
5.1	Based on premiums			1,396,193	1,289,801
5.2	Based on claims			833,873	917,198
5.3	Required solvency			1,396,193	1,289,801
5.4	Required solvency for the previous year			1,421,761	1,552,367
5.5	**Solvency based on growth of 150%**			**2,132,642**	**2,328,551**

Annex II – Table for Capital Calculation

		2018	2019
I	**CHARTER CAPITAL, Article 4: (1 + 2 + 3)**	**5,695,646**	**5,455,646**
1	*Paid share capital of insurers in cash*	3,200,000	3,200,000
2	*Capital reserves (reserves recognized by law and free reserves),*	-	-
3	Accumulated profits transferred after the deduction of dividends to be paid	2,495,646	2,255,646
II	**DEDUCTIBLE ELEMENTS FROM CHARTER CAPITAL, Article 4: (1 + 2 + 3 + 4)**	-	**(51,205)**
1	Repurchased own shares	-	-
2	Investments in intangible (non-material) assets;	-	-
3	Transferred losses and losses of the current year;	-	(51,205)
4	Difference between reserves for discounted and undiscounted claims	-	-
III	**SUPPLEMENTARY CAPITAL, Article 5; (1 + 2 + 3 + 4), max 50%**	**-**	**-**
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 shares	-	-
4	Other elements	-	-
IV	**REGULATORY CAPITAL, (I - II + III)**	**5,695,646**	**5,404,441**
V	**DEDUCTIBLE ELEMENTS IN CAPITAL CALCULATION, Article 6: (1 + 2)**	**-**	**-**
1	Participations or possessions in ownership of other companies	-	-
2	Investments in subordinated debt instruments	-	-
VI	**Non-liquid assets, Article 6; (1 to 9)**	**621,382**	**1,176,021**
1	Premiums receivable and debtors from the reinsurance for more than 180 days	29,172	15,527
2	Borrowings and receivables with related parties	-	-
3	Debtors and other accounts receivable, which derive from the insurance activity	-	-
4	Borrowings from brokers and agents	-	-
5	100% expenses paid in advance and deferred tax assets	362,017	669,938
6	Other assets, not excluded from any responsibility or liability	-	-
7	Other assets which are not easily convertible into cash	-	-
8	Intangible assets	80,879	307,706
9	Others	149,315	182,850
VII	**Net property - Available capital (IV - V - VI)**	**5,074,264**	**4,228,420**
VIII	**Guarantee fund according to the law**	**3,200,000**	**3,200,000**
IX	**Request for capital according to the Guarantee Fund**	**1,874,264**	**1,028,420**
X	**Request for solvency coverage**	**2,132,642**	**2,328,551**
XI	**Final request for capital growth**	**-**	**-**