# Illyria Life Sh.a.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

WITH INDEPENDENT AUDITORS' REPORT THEREON

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**INDEPENDENTS AUDITOR'S REPORT**

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# INDEPENDENT AUDITOR'S REPORT

**To the shareholders and management of Illyria Life Sh.a - Prishtina**

We have audited the accompanying financial statements of Illyria Life sh.a ("the Company), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give true and fair view of the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Report on regulatory requirements of the supervisory authority, the Central Bank of Kosovo, for Solvency Margin and Assets Deemed to Insurance Liabilities*

Pursuant to the requirements of the Central Bank of Kosovo ("CBK"), we have read the accompanying Supplementary Schedules of Solvency Margin and Assets Deemed to Back Insurance Liabilities ("Supplementary Schedules"). These Supplementary Schedules prepared by management are not part of accompanying financial statements. The historical financial information, presented in the Supplementary Schedules prepared by management, is consistent, in all material respects, with the annual financial information disclosed in the accompanying financial statements of the Company as of 31 December 2015, prepared in accordance with International Financial Reporting Standards, applicable for insurance companies in Kosovo. Management is responsible for the preparation of the Supplementary Schedules, in accordance with CBK Rule No.31 "Rule on Life Insurance" dated 1 January 2008.

Ernst & Young Certified Auditors Ltd Kosovo sh.p.k

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Pristina, 22 February 2016

ILLYRIA LIFE Sh.a
STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

(All amounts expressed in EUR, unless otherwise stated)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| Cash and Cash Equivalents | 7 | 620,871 | 436,465 |
| Term Deposits | 8 | 1,460,000 | 3,140,000 |
| Debt and other Fixed Income Securities | 8 | 4,200,722 | 1,792,752 |
| Reinsurance Share of Insurance Liabilities | 9 | 18,732 | 22,636 |
| Property, Plant and Equipment, net | 10 | 556,800 | 573,449 |
| Other Assets | 11 | 66,175 | 234,133 |
| **Total Assets** | | **6,923,300** | **6,199,435** |
| **Liabilities** | | | |
| Insurance Liabilities for Losses and Loss Adjustment Expenses | 12 | 3,119,776 | 2,322,878 |
| Unearned Premium Insurance Liabilities | 13 | 111,898 | 107,923 |
| Deferred Revenue | 14 | 26,485 | 37,866 |
| Other Liabilities | 15 | 144,289 | 141,620 |
| **Total Liabilities** | | **3,402,448** | **2,610,287** |
| **Equity** | | | |
| Share Capital | 16 | 3,285,893 | 3,285,893 |
| Fair Value Reserves | 8 | (403) | (86) |
| Retained Earnings | | 153,341 | 163,015 |
| Current Year Profit | | 82,021 | 140,326 |
| **Total Equity** | | **3,520,852** | **3,589,148** |
| **Total Liabilities and Equity** | | **6,923,300** | **6,199,435** |

The financial statement set out on pages 1 to 37 were authorized for issue on 5 February 2016

Ramis Ahmetaj — General Director

Elvira Ibrahimi — Chief Accountant

The notes on pages 5 to 37 are an integral part of these financial statements.

**(All amounts expressed in EUR, unless otherwise stated)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| Gross Written Premiums | 17 | 1,527,037 | 1,626,041 |
| Premium Tax | 17 | (76,352) | (81,302) |
| Change in the Gross Provision for Unearned Premiums | 13 | (3,975) | 1,027 |
| **Net Written Premiums** | | **1,446,710** | **1,545,766** |
| | | | |
| Premiums Ceded to Reinsurer | 18 | (35,549) | (36,182) |
| Change in Reinsurer Share of Provision for Unearned Premiums | 9 | (3,904) | 4,326 |
| **Net Insurance Premium Revenue** | | **1,407,257** | **1,513,910** |
| | | | |
| Investment Income | 8 | 180,512 | 180,442 |
| Tax on Interest Income | 8 | (9,060) | (16,745) |
| Reinsurance Commission | 19 | 6,571 | 5,563 |
| **Total Revenues** | | **1,585,280** | **1,683,170** |
| | | | |
| Losses and Loss Adjustment Expenses | 12 | (796,898) | (770,384) |
| Policy Acquisition Costs | 20 | (263,256) | (338,377) |
| Claims Expenses | 12 | (238,938) | (174,995) |
| Administrative Expenses | 21 | (204,167) | (259,088) |
| **Total Losses and Expenses** | | **(1,503,259)** | **(1,542,844)** |
| **Net Profit for the Year** | | **82,021** | **140,326** |

The notes on pages 5 to 37 are an integral part of these financial statements.

ILLYRIA LIFE Sh.a
STATEMENT OF CHANGES IN EQUITY
As at and for the year ended 31 December 2015
(All amounts expressed in EUR, unless otherwise stated)

| | Share Capital | Retained Earnings | Other Comprehensive income | Total |
|---|---|---|---|---|
| **Balance on 01 January 2014** | **3,285,893** | **363,015** | **-** | **3,648,908** |
| *Comprehensive Income for the Period* | | | | |
| Net Profit for the Period | - | 140,326 | - | 140,326 |
| Fair Valuation loss on available for sale securities. | - | - | (86) | (86) |
| **Total Comprehensive Income** | **-** | **140,326** | **(86)** | **140,240** |
| Dividends Paid | - | (200,000) | - | (200,000) |
| **Total Transactions with Owners Reported Directly in Equity** | **-** | **(200,000)** | **-** | **(200,000)** |
| **Balance on 31 December 2014** | **3,285,893** | **303,341** | **(86)** | **3,589,148** |
| | | | | |
| **Balance on 01 January 2015** | **3,285,893** | **303,341** | **(86)** | **3,589,148** |
| *Comprehensive Income for the Period* | | | | |
| Net Profit for the Period | - | 82,021 | - | 82,021 |
| Fair Valuation loss on available for sale securities. | - | - | (317) | (317) |
| **Total Comprehensive Income** | **-** | **82,021** | **(317)** | **81,704** |
| Dividends Paid | - | (150,000) | - | (150,000) |
| **Total Transactions with Owners Reported Directly in Equity** | **-** | **(150,000)** | **-** | **(150,000)** |
| **Balance on 31 December 2015** | **3,285,893** | **235,362** | **(403)** | **3,520,852** |

The notes on pages 5 to 37 are an integral part of these financial statements.

**(All amounts expressed in EUR, unless otherwise stated)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Net profit loss for the period** | | **82,021** | **140,326** |
| *Adjustments to reconcile net profit to net cash flows from operating activities:* | | | |
| Depreciation and amortization | 10 | 17,169 | 17,400 |
| Increase in losses and loss adjustment insurance liabilities | 12 | 796,898 | 770,383 |
| Increase in unearned premium insurance liabilities | 13 | 3,975 | (1,027) |
| Premium tax expense | 17 | 76,352 | 81,302 |
| Investment income, net | | (171,452) | (163,697) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **804,963** | **844,687** |
| *Changes in operating assets and liabilities* | | | |
| Decrease/(increase) in reinsurance share of insurance liabilities | 9 | 3,904 | (4,326) |
| Decrease in other assets, excluding accrued interest | 11 | 40,877 | 22,270 |
| (Decrease)/Increase in deferred revenue | 14 | (11,381) | 3,003 |
| Increase in other liabilities, excluding premium tax payable | 15 | 19,894 | 12,106 |
| **Cash flows generated from operations** | | **858,257** | **877,740** |
| Premium tax paid | | (76,922) | (60,607) |
| **Net cash generated from operating activities** | | **781,335** | **817,133** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of fixed assets | 10 | (520) | (794) |
| Decrease in term deposits | 8 | 1,680,000 | 760,000 |
| Increase in Other Investments | | (2,397,263) | (1,788,654) |
| Interest received | | 270,854 | 138,711 |
| **Net cash from investing activities** | | **(446,929)** | **(890,737)** |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Dividend Paid | | (150,000) | (200,000) |
| **Net Cash from Financing Activities** | | **(150,000)** | **(200,000)** |
| | | | |
| **Net (decrease)\ increase in cash and cash equivalents** | | **184,406** | **(273,604)** |
| Cash and cash equivalents at the beginning of the year | 7 | 436,465 | 710,069 |
| **Cash and cash equivalents at 31 December** | 7 | **620,871** | **436,465** |

The notes on pages 5 to 37 are an integral part of these financial statements.

## 1. REPORTING ENTITY

Illyria Life Sh.a. (formerly "Dukagjini Life", hereafter " Illyria Life" or "the Company") is a joint-stock company registered by the Kosovo Business Registration Agency on 28 August 2008. Illyria Life was the first licensed life insurance company in Kosovo and was established under UNMIK regulation 2001/25 and Rule 31 of Central Company of Kosovo on licensing of life insurance companies in Kosovo.

The Company is a wholly owned subsidiary of Save Re Group, a Slovenian company which is present in Kosovo through K.S. Illyria, Sh.a. and K.S.J. Illyria Life, Sh.a.

The Company operates from one building located at Mother Theresa Boulevard, no. 33, Prishtina, Kosovo. At 31 December 2015, the Company employed 125 staff and senior management (2014: 137).

## 2. BASIS OF PREPARATION

### a. Statement of compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

In the absence of specific guidance under IFRS concerning the accounting treatment of insurance transactions, the Company has considered the requirements and guidance in International Financial Reporting Standards dealing with similar and related issues; the definitions, recognition and measurement criteria for assets, liabilities, income and expenses set out in the IASB Framework; and pronouncements of other standard setting bodies and accepted industry practices, as envisaged by IAS 1. In particular, the Company has referred to the measurement and recognition requirements of IFRS 4 Insurance contracts for guidance. The Company has continued to use statutory basis (in accordance with rules issued by the Central Company Kosovo ("CBK"), its lead regulator) to account for insurance contracts, as amended by the specific requirements of IFRS 4 in respect of liability adequacy and reinsurance.

### b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments (if any), financial instruments at fair value through profit or loss (if any), and available-for-sale financial assets (if any), which are measured at fair value.

### c. Functional and presentation currency

The financial statements are presented in euro ("EUR"), which is the Company's presentation and functional currency.

### d. Critical judgments in applying the accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

## 2. BASIS OF PREPARATION (CONTINUED)

### d. Critical judgments in applying the accounting policies and key sources of estimation uncertainty (continued)

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*Recognition and measurement of insurance liabilities*

Note 12 and 13 and the respective accounting policy note 3.c (i) contain information about the assumptions and uncertainties related to insurance liabilities.

*Impairment losses on receivables*

The Company reviews its insurance and non-insurance receivables to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the profit or loss, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of receivables before the decrease can be identified with an individual debtor in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the debtor that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

*Technical reserves*

The most significant estimates in the financial statements of the Company relate to technical provisions. The Company has a reasonably cautious approach to provisioning. Management believes that the current level of technical reserves is sufficient.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a. Foreign currency

Foreign currency transactions, if any, are transactions undertaken by the Company 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 recognized 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.

### b. Classification of insurance and investment contracts (liabilities)

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c. Insurance contracts (liabilities)**

***i. Recognition and measurement***

*General insurance contracts*

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

*Revenue*

Gross premiums on insurance contracts are recorded on written premium basis and are accreted to earnings on a pro-rata basis over the term of the related policy coverage. Gross written premium reflect business written during the year, and include applicable taxes or duties based on premiums. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of the risks underwritten.

*Unearned premiums*

The provision for unearned premium comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using pro-rata basis.

*Claims (loss adjustments)*

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. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material.

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

The life assurance provision has been computed by the Company’s actuary, having due regard to principles laid down in the regulation for the calculation of the mathematical provision for life assurers, issued by the Insurance Regulator.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***ii. Reinsurance assets***

The Company cedes insurance premiums and risk in the normal course of business with net loss potential through the diversification of its risk. Assets and liabilities arising from ceded reinsurance contracts are presented separately as assets and liabilities from related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligation to its policy holders. The Company's reinsurance policy is established in order to limit its potential losses arising from longer exposures to Life insurance policies. Such reinsurance includes all insurance policies above certain limits of insured amounts.

Reinsurance premiums for ceded reinsurance are recognized as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance coverage is provided based on the pattern of the reinsured risk. The unexpended portion of the ceded reinsurance premiums is included in the reinsurance assets. The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the provision held in respect of the related insurance contracts.

Reinsurance receivables include reinsurance commission in respect of premiums ceded to the reinsurer. 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 Company may not recover all amounts due, and that the event has a reliable measurable impact on the amounts that the Company will receive.

***iii. Insurance receivables and payables***

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

**d. Financial instruments**

*Recognition*

The Company initially recognizes loans, advances and deposits on the date that they originate. All other financial assets and liabilities are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

*Classification*

See accounting policy 3.(e),(f) and (g).

*Derecognition*

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risk or rewards of the transferred assets or a portion of them.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### d. Financial instruments (continued)

If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

*Offsetting*

Financial assets and liabilities are set off and the net amount presented when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

*Amortized cost measurement*

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

*Fair Value measurement*

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

*Identification and measurement of impairment*

At each reporting date the Company assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a debtor will enter Company bankruptcy or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

### e. Cash and cash equivalents

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

### g. Other receivables
Other receivables are stated at their costs less impairment losses (see accounting policy 3.d.vii).

### h. Property, plant and equipment

*Owned Asset*
Property, plant and equipment are stated at acquisition cost. Where part of an item of these assets has a different useful life it is accounted for as a separate item of property, plant and equipment.

*Subsequent costs*
The Company recognizes in the carrying amount of an item of fixed assets 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 Company and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

*Depreciation and amortization*
Depreciation and amortization on all categories of fixed assets is calculated on a straight-line basis over the estimated useful lives of the assets. The annual depreciation rates are:

| | |
|---|---|
| Buildings and premises | 1.30% |
| Computer equipment | 33.33% |
| Office and other furniture | 10% |
| Other equipment | 20% |
| Software | 20% |

### i. Impairment of non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### j. Provision
A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j. Provision (continued)

Provisions are determined by discounting the expected future cash flows at pre tax rate. Provisions reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### k. Revenue recognition

*Earned Premiums from insurance contracts*

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 3.c.(i).

*Investment income*

Investment income represents income from financial assets and is recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

### l. Employee benefits

*Compulsory social security contributions*

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

### m. 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 apportioned administrative expenses connected with processing of proposals and issuing of policies. Policy acquisition costs are expensed as incurred.

### n. Leases

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

### o. Income tax

Effective 1 January 2010 in accordance with Law no.03/L- 162, insurance companies are required to pay a premium tax of 5% on their quarterly gross premiums. Premiums returned and retrospective premium adjustments are deducted from gross premiums to arrive at the tax base.

Tax on gross premiums written is presented separately as a deduction from the gross premiums written. Premium tax constitutes a part of acquisition costs and is expensed when incurred. Insurance companies are not liable to tax on profit in Kosovo.

## 4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

### 4.1. Standards and interpretations issued but not yet effective

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

**IFRS 9 *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2015, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future.

***(a) Classification and measurement***

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale with gains and losses recorded in OCI will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The AFS reserve currently in accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Company expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on arelatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Company expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Company were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Company expects that these will continue to be measured at amortised cost under IFRS 9. However, the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

***(b) Impairment***

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Company expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

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

### 4.1. Standards and interpretations issued but not yet effective (continued)

***(c) Hedge accounting***

The Company believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Company does not expect a significant impact as a result of applying IFRS 9.

**IFRS 14** ***Regulatory Deferral Accounts***

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

**IFRS 15** ***Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company is assessing the potential impact on its financial statements resulting from IFRS 15.

**Amendments to IAS 16 and IAS 38:** ***Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

**Amendments to IFRS 11** ***Joint Arrangements: Accounting for Acquisitions of Interests;*** **Amendments to IAS 27:** ***Equity Method in Separate Financial Statements;*** and **Amendments to IFRS 10 and IAS 28:** ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*** These three standards are not applicable to the Company.

**Annual Improvements** ***2012-2014 Cycle***

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

**(All amounts expressed in EUR, unless otherwise stated)**

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

### 4.1. Standards and interpretations issued but not yet effective (continued)

**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan.

**IFRS 7 *Financial Instruments: Disclosures***

**(i) Servicing contracts**

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

**(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements**

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

**IAS 19 *Employee Benefits***

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

**Amendments to IAS 1 *Disclosure Initiative***

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

• The materiality requirements in IAS 1

• That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated

• That entities have flexibility as to the order in which they present the notes to financial statements

• That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

**Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

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

### 4.2. New and amended standards and interpretations

**Annual Improvements 2010-2012 Cycle**

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014.

**IFRS 2 *Share-based Payment***

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Company has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Company had not granted any awards during the second half of 2014 and 2015.

**IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

**IAS 24 *Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

**Annual Improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and the Company has applied these amendments for the first time in these consolidated financial statements. They include:

**IFRS 13 *Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39.

**IAS 40 *Investment Property***

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Company has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Company.

**(All amounts expressed in EUR, unless otherwise stated)**

## 5. INSURANCE RISK MANAGEMENT

### a. Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organizations that are directly subject to the risk. Such risks may relate to life or other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Company also has exposure to market risk through its insurance and investment activities.

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

Premium risk is present when the policy is issued before any insured event has occurred. The risk is that expenses and incurred losses will be higher than the premium received. Reserve risk represents the risk that the absolute level of the technical provisions is incorrectly estimated.

Underwriting risk components of the life assurance business include biometric risk (comprising mortality and disability) and lapse risk. Lapse risk relates to unanticipated higher or lower rate of policy lapses, terminations, changes to paid-up status (cessation of premium payments) and surrenders. Mortality rates and guaranteed interest rates have the largest impact on the risk that the premium will not be sufficient to cover the expenses and incurred losses.

Guaranteed interest rates are capped, while the Company utilizes the most recent mortality rate tables available in Kosovo, which were produced by UNMIK in 2003 and include separate statistics for both the male and female population.

Life assurance provisions are computed by the Company's actuary for all long term active insurance policies and those capitalized, pursuant to the Company's internal policies and regulatory requirements. Provisions are computed utilizing the gross Zillmer method and are separately calculated for each policy. In applying the gross Zillmer method to calculate life assurance provisions, the Company includes acquisition costs, including alpha expenses, up to 3.5% of the sum insured, which is within the limits prescribed by the Insurance regulator. Policy acquisition costs are not included in calculating life assurance provisions for insurances policies in which the insuring party is no longer required to pay premiums, such as capitalized insurance or single-premium insurance policies. Use of the gross method does not affect the disbursement of the agreed sum insured. The assumptions used for calculation of premiums are the same ones that are used for calculation of provisions.

### b. Underwriting strategy

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Company's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years, which reduces the variability of the outcome.

### c. Reinsurance Strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The Company buys proportionate reinsurance treaties to reduce the net exposure for an individual risk to less than EUR 15,000 for traditional Mix-Life (endowment policies) and Scholarship policies, and EUR 10,000 for Group Term Life policies respectively.

## 5. INSURANCE RISK MANAGEMENT (CONTINUED)

### c. Reinsurance Strategy (continued)

Ceded reinsurance contains credit risk and such reinsurance recoverable is reported after deductions for known uncollectible items. The Company monitors the financial condition of its reinsurer on an ongoing basis and reviews its reinsurance arrangements periodically.

### d. Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

*Products*

The products offered by the Company are:

***Mix Life***, which is an endowment policy that pays the sum insured on the earlier of death of the insured or at the maturity date of the policy, which event occurs first;

***Scholarship***, which is an endowment policy that pays a fixed term annuity starting on the maturity date of the policy;

***Additional Death Coverage***, a death benefit which is paid at the occurrence of death of the insured person. Not contracted separately, but only as a rider to the above noted Scholarship product.

***Group Term Life***, which provides coverage for death only during the term of the policy; and

***Personal accidents*** (accidental death, invalidity, medical expenses, daily allowances), the benefit for which is payable upon the occurrence of any of the above listed events. Personal accident products are not sold separately, but are sold as riders to the main covers.

The Company does not offer unit linked products.

*Premiums*

The premiums are paid in regular installments (monthly, quarterly, semi-annual and yearly premiums), but also as a lump sum. Premiums are denominated in EUR, and the Company is not exposed to currency risk.

Indexation is the increase of the sum insured during the term of insurance validity. Indexation is optional and can be purchased for an additional premium. For contracts that include the indexation option, indexation is performed every five years, unless the retail price index increased cumulatively by at least 10%. Indexation can only be performed up to five years before the expiry of the insurance contract. No indexation is performed during the last five years of the insurance contract.

*Profit sharing*

Policyholders of classical Mix Life (endowment policies) are entitled to a share of up to 85% of the profits generated by the Company while managing assurance funds. The remaining 15% of profits generated remain with the Company.

The profit is calculated based on audited financial statements for the previous year. Profit is calculated for each and every life insurance policy, which in accordance with the general conditions is eligible for participation in profit. Profit for policies which do not participate in profit sharing, remain with the Company. Profit allocated to policy holders are not paid out, instead it is included in the insured sum.

### e. Concentration of insurance risks

An aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Company’s liabilities. Concentrations of risk can arise in situations where the Company is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior.

(All amounts expressed in EUR, unless otherwise stated)

## 5. INSURANCE RISK MANAGEMENT (CONTINUED)

### e. Concentration of insurance risks (continued)

The risks underwritten by the Company are located in the Republic of Kosovo. The Company is exposed to concentration risk through its Group Term Life policies. Management does not consider that there is a significant insurance risk concentration as of 31 December 2015.

### f. Exposure relating to catastrophic events

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

## 6. FINANCIAL RISK MANAGEMENT

Transactions in financial instruments may result in the Company undertaking more financial risks. These include credit risk, market risk, currency risk and liquidity risk. Each of these financial risks is described below.

**Determination of fair values**

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

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

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

***Level 3:*** Valuation techniques using significant unobservable inputs. In addition in this level are included investments in subsidiaries, associates and other equity shares stated at cost, that do not have reliable market value, if any.

Below is an analysis of financial instruments measured at or given disclosure of fair value according to valuation methods used in 2015:

| | Level 1: | Level 2: | Total |
|---|---|---|---|
| Cash and Cash Equivalents | - | 620,871 | 620,871 |
| Term Deposits | | 1,460,000 | 1,460,000 |
| Debt And Other Fixed Income Securities | - | 4,200,722 | 4,200,722 |
| **Total financial assets** | **-** | **6,281,593** | **6,281,593** |

**Credit risk**

In the normal course of its business, as premiums are received, they are invested to pay for future policy holder obligations. The Company is exposed to credit risk on its cash at Company, debt securities-held to maturity, term deposits and reinsurance counterparties. The Company manages its exposure to credit risk on a regular basis by closely monitoring its exposure to debt securities and term deposit counterparties.

**Market risk**

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates.

(All amounts expressed in EUR, unless otherwise stated)

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Interest rate risk**

Interest rate risk is comprised of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets.

The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The financial assets and liabilities of the Company carry market interest rates.

**Risk Arising from Changes in Interest Rates**

The Company's exposure to risks arising from changes in interest rates is relatively limited. The Company is not a borrower, and its investments are primarily focused on fixed interest rate instruments. The Company's exposure to risks from changes in interest rates is greater when considering future cash flows from interest bearing instruments if the returns from those investments fall below the guaranteed technical interest rate over a prolonged period of time.

| **31 December 2015**<br>**Type of Financial Instrument** | **Non-Interest bearing** | **Fixed interest up to 1 year** | **Fixed interest over 1 year** | **Total** |
|---|---|---|---|---|
| Cash and Cash Equivalents | 620,871 | - | - | 620,871 |
| Term Deposits | - | 260,000 | 1,200,000 | 1,460,000 |
| Debt And Other Fixed Income Securities | - | 1,792,185 | 2,408,537 | 4,200,722 |
| **Total** | **620,871** | **2,052,185** | **3,608,537** | **6,281,593** |

| **31 December 2014**<br>**Type of Financial Instrument** | **Non-Interest bearing** | **Fixed interest up to 1 year** | **Fixed interest over 1 year** | **Total** |
|---|---|---|---|---|
| Cash and Cash Equivalents | 436,465 | - | - | 436,465 |
| Term Deposits | - | 850,000 | 2,290,000 | 3,140,000 |
| Debt And Other Fixed Income Securities | - | - | 1,792,752 | 1,792,752 |
| **Total** | **436,465** | **850,000** | **4,082,752** | **5,369,217** |

**Currency risk**

The Company undertakes transactions mainly in Euro to satisfy regulatory and self-imposed capital requirements. Currency risk in the investment portfolio is managed using assets/liabilities matching principles.

**Liquidity risk**

Liquidity risk is moderately inherent to the Company's business as certain assets purchased and liabilities sold could have liquidity characteristics that are specific. If the Company requires significant amounts at short notice, in excess of normal cash requirements, it may face difficulties to obtain attractive prices. The Company monitors its liquidity on a daily basis in order to manage its obligations when they fall due.

(All amounts expressed in EUR, unless otherwise stated)

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Maturity Structure**

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

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

| 31 December 2015<br>Type of Financial Instrument | No Maturity | Up to 6 months | From 6 to 12 months | Over 12 Months | Total |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | 620,871 | - | - | - | 620,871 |
| Term Deposits | - | - | 600,000 | 860,000 | 1,460,000 |
| Debt And Other Fixed Income Securities | - | 600,301 | 1,191,884 | 2,408,537 | 4,200,722 |
| **Total** | **620,871** | **600,301** | **1,791,884** | **3,268,537** | **6,281,593** |

| 31 December 2014<br>Type of Financial Instrument | No Maturity | Up to 6 months | From 6 to 12 months | Over 12 Months | Total |
|---|---|---|---|---|---|
| Cash and Cash Equivalents | 436,465 | - | - | | 436,465 |
| Term Deposits | - | 1,450,000 | 1,090,000 | 600,000 | 3,140,000 |
| Debt And Other Fixed Income Securities | - | - | - | 1,792,752 | 1,792,752 |
| **Total** | **436,465** | **1,450,000** | **1,090,000** | **2,392,752** | **5,369,217** |

**Reserves and actuarial assumptions adequacy test**

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

"Mortality" is the risk covered by all insurance products, underwritten by the Company.
"Mortality" risk occurrence data for 2015 including estimations used are as follows:

| | |
|---|---|
| Number of people currently insured susceptible to the risk of death | 2,948 people |
| Average age of people susceptible to the risk of death | 37 years |
| Number of payments following deaths of insured in 2015 | 0 cases |
| Number of reported deaths of insured in 2015 | 6 cases |
| Estimated number of deaths per 1000 people | 2.68 |

Therefore, the actual "Mortality" risk occurrence shown on this table is below the expectation whereas two of the reported deaths occurred during 2014, but they were only reported at the end of 2015.

(All amounts expressed in EUR, unless otherwise stated)

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Surrender**
Surrenders can take place for the Mix Life Product. When the premium is calculated, the probability of surrender is taken into account. The estimated probability for surrender is highest in the third year at 5%, while leveling off in year twenty at 1%.

The Company's product allows for surrender costs after the second year, if the policy term is shorter or equal to 15 years, and after the third year, if the policy term is greater than 15 years. In the year 2015, 171 (2014:170) insured persons surrendered their policies, with the corresponding surrender value of EUR 191,801 (2014: EUR 153,378).

**Technical Interest**
The technical interest rate of 2.75% p.a. is used when calculating the reserve. The technical interest rate is the minimum guaranteed return for every life insurance contract. There is a risk that income from investments will not cover the minimum guaranteed return. In 2015 the generated net income on investments (including mathematical reserves) covers the minimum guaranteed income, granting additional profit above the technical interest.

The analysis of the actuarial parameters used in the calculation of the tariffs and life insurance reserves shows that the assumptions made are reliable and prudent. The favorable development of the risks compared to the expected values, guarantees that the reserves are adequately charged.

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

When selecting a reinsurer the Company considers their relative security. The security of the reinsurer is assessed from public rating information and from internal investigations. The current reinsurer has a Standard and Poor's rating of BBB+, and an AM Best rating of A-.

**Sensitivity Analysis**
The main factors affecting the profit of the company are the level of claims ratio and expenses.

| Simulation as at 31 December 2015 | Profit / (Loss) | Net Equity | Required Guarantee Fund |
|---|---|---|---|
| Current | 82,021 | 3,520,852 | 3,000,000 |
| Claims Increase by (+40%) | (13,553.86) | 3,507,298 | 3,000,000 |
| Expenses Increase by (+10%) | 32,396 | 3,488,456 | 3,000,000 |

The table above presents a simulation, taking into account changes to claims incurred or increases in expenses, and its effect on the Net Equity of the Company and the available solvency margin.

**(All amounts expressed in EUR, unless otherwise stated)**

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Operational Risk

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk may arise with inadequate information system, technological errors, breach in the internal control, frauds, unforeseen circumstances and other problems having operational character in result of which there is a possibility of unexpected losses.

Operational risks arise from all operations of the Company. The purpose of the Company is to manage the operational risk in a way to achieve a balance between avoiding financial losses and reputation risk and the Company's effective cost management.

### Other risks

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

Changes in existing insurance laws and regulations may affect the way in which the Company conducts its business and the products offered. Additionally, the insurance laws or regulations adopted and amended from time to time may be more restrictive or may result in higher costs than current requirements.

*Volatility in global and Kosovo's financial markets*

The ongoing global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the financial sector, and, at times, higher inter-Company lending rates and volatility in stock markets. Further adverse developments resulting from the crisis might result in negative implications on the financial and liquidity position of the Company.

### Disclosures and estimation of fair values

Fair value estimates, if any, are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

**(All amounts expressed in EUR, unless otherwise stated)**

## 7. CASH AND CASH EQUIVALENTS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash on hand | 73 | 388 |
| Cash equivalent at Banks | 620,798 | 436,077 |
| **Total** | **620,871** | **436,465** |

Cash equivalent at Banks include current accounts of EUR 620,871 thousand (2014: EUR 436,465) at Raiffeisen Bank, ProCredit Bank, TEB, NLB Prishtina, Banka për Biznes, Banka Kombëtare Tregtare, Central Bank of Kosovo and Banka Ekonomike.

## 8. TERM DEPOSITS, DEBT AND OTHER FIXED INCOME SECURITIES

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Banka Ekonomike | 600,000 | 1,000,000 |
| Banka Kombëtare Tregtare | - | 400,000 |
| Banka për Biznes | - | 450,000 |
| NLB Prishtina | 860,000 | 600,000 |
| TEB sh.a. | - | 690,000 |
| **Total** | **1,460,000** | **3,140,000** |

According to the administrative instruction no. 01/2009 issued by the Central Company of Kosovo, Life Insurance Companies are permitted to invest money from the funding capital upon approval of the investment plan from CBK, which was granted on 8 April 2009. The annual deposit interest rates with respect to 2015 term deposits ranged from 1.40% to 4.00% (2014: 1.20% to 6.00%).

Interest income of EUR 90,486 (2014: EUR 166,654) was earned from term deposits with the Banks listed above. Withholding tax of 10% (2014: 10%) is applied to interest income and is withheld by the Bank upon payment of interest to the Company.

Interest income of EUR 111 (2014: EUR 792), was earned from current account deposits with Banks. Withholding tax of 10% (2014: 10%) is applied to interest income and is withheld by the Bank upon payment of interest to the Company.

During 2015 the company has placed a portion of its assets in Sovereign Debt Securities, as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| KS Government Bonds – Available for Sales | 3,600,421 | 1,191,895 |
| KS Government Bonds – Held to Maturity | 600,301 | 600,857 |
| **Total** | **4,200,722** | **1,792,752** |

The Sovereign Debt Securities classified as Held to Maturity have a stated Yield to Maturity of 2.60% - 4.90%. The Sovereign Debt Securities classified as Available for Sale have a stated Yield to Maturity of 2.80% - 4.90%. Sovereign Debt Securities have a maturity from two to five years.

The Sovereign Debt Securities have been designated as managed on fair value bases, Level 2 (please see Note 6.). Fair Value basis valuation has resulted in a charge of EUR 403 (2014: EUR 86), for the year ending on 31 of December 2015.

(All amounts expressed in EUR, unless otherwise stated)

## 8. TERM DEPOSITS, DEBT AND OTHER FIXED INCOME SECURITIES (CONTINUED)

Income of EUR 85,873 (2014: EUR 12,996) was earned from Sovereign Debt Securities. Securities are held in custody with NLB Prishtina.

During the year 2015, the company increased significantly its proportion of investments to sovereign debt securities. During the year, almost all long-term deposits expired, upon which the company adjusted its interest receivable, the deviation of which has primarily resulted from various "days basis" calculations used by Banks in the past in calculating the interest in term deposits, and the subsequent tax on interest. An interest rate tax liability was adjusted after ensuring compliance. The effect on interest income is positive result of EUR 4,042 (2014: EUR 0).

## 9. REINSURER SHARE OF INSURANCE LIABILITIES

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

| | 31 December 2015 | Change for the period | 31 December 2014 |
|---|---|---|---|
| Reinsurer's share on insurance liability on unearned premium | | | |
| Capital life | 11,314 | (2,048) | 13,362 |
| Riders | 7,418 | (1,856) | 9,274 |
| | **18,732** | **(3,904)** | **22,636** |
| Reinsurance share on insurance liability on claims reserves | - | - | - |
| **Total** | **18,732** | **(3,904)** | **22,636** |

**(All amounts expressed in EUR, unless otherwise stated)**

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Buildings and Premises | Computer Equipment | Office and other Furniture | Other Equipment | Software | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance at 1 January 2014 | 586,692 | 9,734 | 13,562 | 660 | 95,491 | 706,139 |
| Additions | - | 544 | 250 | - | - | 794 |
| **Balance at 31 December 2014** | **586,692** | **10,278** | **13,812** | **660** | **95,491** | **706,933** |
| | | | | | | |
| Balance at 1 January 2015 | 586,692 | 10,278 | 13,812 | 660 | 95,491 | 706,933 |
| Additions | - | 400 | 120 | - | - | 520 |
| **Balance at 31 December 2015** | **586,692** | **10,678** | **13,932** | **660** | **95,491** | **707,453** |
| | | | | | | |
| **Accumulated depreciation and amortization** | | | | | | |
| Balance at 1 January 2014 | (39,293) | (8,625) | (5,897) | (592) | (61,677) | (116,084) |
| Charge for the year | (7,628) | (832) | (1,358) | (68) | (7,514) | (17,400) |
| **Balance at 31 December 2014** | **(46,921)** | **(9,457)** | **(7,255)** | **(660)** | **(69,191)** | **(133,484)** |
| | | | | | | |
| Balance at 1 January 2015 | (46,921) | (9,457) | (7,255) | (660) | (69,191) | (133,484) |
| Charge for the year | (7,627) | (638) | (1,390) | - | (7,514) | (17,169) |
| **Balance at 31 December 2015** | **(54,548)** | **(10,095)** | **(8,645)** | **(660)** | **(76,705)** | **(150,653)** |
| | | | | | | |
| **Carrying amounts** | | | | | | |
| Balance at 1 January 2014 | 547,399 | 1,109 | 7,665 | 68 | 33,814 | 590,055 |
| Balance at 31 December 2014 | **539,771** | **821** | **6,557** | **-** | **26,300** | **573,449** |
| **Balance at 31 December 2015** | **532,144** | **583** | **5,287** | **-** | **18,786** | **556,800** |

(All amounts expressed in EUR, unless otherwise stated)

## 11. OTHER ASSETS

Other assets comprised:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Premium receivables | 55,944 | 88,559 |
| Interest accrued on deposits with financial institutions | 10 | 128,395 |
| Due from Sava Re | 5,868 | 6,140 |
| Deferred Acquisition Cost | 3,153 | 1,877 |
| Receivables from Employees | 1,200 | 9,162 |
| **Total** | **66,175** | **234,133** |

Gross Premium receivable at the end of 2015 is EUR 106,044 (2014: EUR 195,402). In accordance with company policy, this amount has been impaired with a value equivalent to EUR 50,100 (2014: EUR 106,843). Due from Sava Re in the amount of EUR 5,868 represents receivable amounts for reinsurance commission, a part of which is deferred revenue.

Deferred Acquisition Cost ("DAC") is created only for rider products. DAC is calculated consistent with the unearned premium reserve using the pro-rata temporis method, for agents' commissions, CBK fees and premium tax.

## 12. INSURANCE LIABILITIES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

| | 2015 | 2014 |
|---|---|---|
| As at 1 January | | |
| Gross insurance liabilities for losses and loss adjustment expenses | 2,322,878 | 1,552,494 |
| Reinsurance recoverable | - | - |
| Net insurance liabilities for losses and loss adjustment expenses | 2,322,878 | 1,552,494 |
| Losses and loss adjustment expenses incurred | 1,035,836 | 945,378 |
| Losses and loss adjustment expenses paid | (238,938) | (174,994) |
| Net insurance liabilities for losses and loss adjustment expenses as at 31 December | 3,119,776 | 2,322,878 |
| Reinsurance recoverable | - | - |
| **Gross insurance liabilities for losses and loss adjustment expenses** | **3,119,776** | **2,322,878** |

The insurance liabilities for losses and loss adjustment expenses consist of following:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Life assurance provision | 2,959,917 | 2,228,776 |
| IBNR Reserves | 82,449 | 94,102 |
| RBNS Reserve | 80,410 | - |
| **Total** | **3,119,776** | **2,322,878** |

**(All amounts expressed in EUR, unless otherwise stated)**

## 12. INSURANCE LIABILITIES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES (CONTINUED)

The life insurance provision is recorded on a per policy basis using standard computation factors based on actuarial formulae, pricing assumptions on mortality and interest rates used.

A significant measure of experience and judgment is involved in assessing outstanding insurance liabilities; the ultimate costs 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.

## 13. UNEARNED PREMIUM INSURANCE LIABILITIES

Unearned premium reserve by product is comprised as follows:

| Product | 31 December 2015 | Change for the period | 31 December 2014 |
|---|---|---|---|
| *Capital life:* | | | |
| Mix life assurance | 102,713 | (3,519) | 99,194 |
| Scholarship | 591 | (490) | 101 |
| Group life assurance | - | - | - |
| *Riders:* | | | |
| Accidental death | 3,567 | 20 | 3,587 |
| Disability from accident | 3,684 | (7) | 3,677 |
| Daily compensation | 29 | 9 | 38 |
| Medical expense | 1,314 | 12 | 1,326 |
| **Total** | **111,898** | **(3,975)** | **107,923** |

## 14. DEFERRED REVENUE

| | 31 December 2015 | Change for the period | 31 December 2014 |
|---|---|---|---|
| Premiums collected in advance | 23,411 | (10,678) | 34,089 |
| Unearned reinsurance commission | 3,074 | (703) | 3,777 |
| **Total** | **26,485** | **(11,381)** | **37,866** |

Premiums collected in advance, represents payments by clients which are not due until after 31 of December 2015. Unearned reinsurance commission relates to commissions for unearned premiums at the reporting date.

(All amounts expressed in EUR, unless otherwise stated)

## 15. OTHER LIABILITIES

Other liabilities comprise of:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Due to broker ("WVP and L.I.F.E.") | 4,708 | 4,150 |
| Due to Tax Authorities (see below) | 22,035 | 40,729 |
| Due to employees and pension contributions | 11,077 | 10,530 |
| Due to SAVA Re | 35,549 | 36,182 |
| Due to CBK | 4,346 | 6,209 |
| Other payables | 66,574 | 43,820 |
| **Total** | **144,289** | **141,620** |

Due to Tax Authorities relates to the following:

| | | |
|---|---|---|
| Premium tax payable | 20,124 | 20,695 |
| Tax on interest income payable | 1 | 17,962 |
| Personnel income tax | 1,910 | 2,072 |
| **Total** | **22,035** | **40,729** |

Other payables relate to audit fees for the year ending 31 December 2015, certain administrative expenses, and payments made which at the 31 of December 2015, have been recognized, but had yet to be paid.

## 16. SHARE CAPITAL

The authorized, issued and fully paid-up share capital of the Company is EUR 3,285,000, comprised of 6,570 ordinary shares with a nominal value of EUR 500 each of which EUR 500 was paid by the reporting date. Share capital consists of:

| Shareholder | Number of shares | Nominal value per share | Paid capital per share | Nominal amount (EUR) | Paid amount (EUR) | Percentage |
|---|---|---|---|---|---|---|
| Sava RE | 6,570 | 500 | 500 | 3,285,000 | 3,285,893 | 100.00% |
| **Total** | **6,570** | **500** | **500** | **3,285,000** | **3,285,893** | **100.00%** |

The amount of capital recorded and paid until 31 December 2015 is EUR 3,285,893.

(All amounts expressed in EUR, unless otherwise stated)

## 17. GROSS WRITTEN PREMIUMS AND PREMIUM TAX

Gross written premiums (GWP) and premium tax by product at year end are comprised as follows:

| Product | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | GWP | Premium Tax | GWP | Premium Tax |
| *Capital life:* | | | | |
| Mix life assurance | 1,394,023 | 69,701 | 1,489,838 | 74,491 |
| Scholarship | 25,479 | 1,274 | 18,432 | 922 |
| Group life assurance | 5,809 | 290 | 5,830 | 292 |
| *Riders:* | | | | |
| Term Life | | | | |
| Accidental death | 40,450 | 2,023 | 43,236 | 2,162 |
| Disability from accident | 40,450 | 2,023 | 44,238 | 2,212 |
| Daily compensation | 269 | 13 | 522 | 26 |
| Medical expense | 20,004 | 1,000 | 23,080 | 1,154 |
| Term Life | 553 | 28 | 865 | 43 |
| **Total** | **1,527,037** | **76,352** | **1,626,041** | **81,302** |

The Premium tax rate is 5% p.a. (2014: 5% p.a.).

## 18. PREMIUMS CEDED TO REINSURERS

Premiums as per products ceded to reinsurer at year end are comprised as follows:

| Product | 31 December 2015 | 31 December 2014 |
|---|---|---|
| *Capital life:* | | |
| Mix life assurance | 20,696 | 20,917 |
| Scholarship | - | - |
| Group life assurance | - | - |
| *Riders:* | | |
| Term Life | - | - |
| Accidental death | 6,912 | 6,907 |
| Disability from accident | 7,941 | 8,358 |
| **Total** | **35,549** | **36,182** |

(All amounts expressed in EUR, unless otherwise stated)

## 19. REINSURANCE COMMISSION

Reinsurance commission by product at year end is comprised as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| *Capital life:* | | |
| Mix life assurance | 1,516 | 1,571 |
| Scholarship | - | - |
| Group life assurance | - | - |
| *Riders:* | | |
| Term Life | - | - |
| Accidental death | 2,025 | 2,072 |
| Disability from accident | 2,327 | 2,497 |
| **Total reinsurance commission calculated** | 5,868 | 6,140 |
| Unearned part of reinsurance commission (Note 14) | 703 | (577) |
| **Total reinsurance commission** | **6,571** | **5,563** |

## 20. POLICY ACQUISITION COSTS

Policy acquisition costs at year end are comprised as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Broker's commission | 32,149 | 45,050 |
| Agency commission | 2,695 | - |
| Agents' commission, including tax and social expense | 207,156 | 268,875 |
| CBK fees | 21,227 | 24,391 |
| Deferred Acquisition Costs | 29 | 61 |
| **Total** | **263,256** | **338,377** |

The Company utilizes brokers named "WVP – Broker for insurance LLC" and "L.I.F.E. Kosova L.L.C." in order to sell insurance policies on the Company's behalf.

(All amounts expressed in EUR, unless otherwise stated)

## 21. ADMINISTRATIVE EXPENSES

Administrative expenses at year end are comprised as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Payroll and related expenses **(Note 22)** | 147,972 | 139,251 |
| Professional service fees | 36,238 | 33,865 |
| Depreciation and amortization | 17,168 | 17,400 |
| Office supplies | 4,288 | 5,280 |
| Phone and postage expenses | 6,360 | 7,165 |
| Internet expenses | - | 15 |
| Travel and accommodation | 6,299 | 6,684 |
| Representation expenses | 866 | 1,547 |
| Impairments of receivables | (56,744) | 16,239 |
| Core System Maintenance | 18,980 | 18,681 |
| Other | 22,740 | 12,961 |
| **Total** | **204,167** | **259,088** |

## 22. PAYROLL AND RELATED EXPENSES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Net salaries | 119,436 | 112,438 |
| Withholding income tax | 10,102 | 9,530 |
| Social insurance | 14,133 | 13,279 |
| Health Insurance | 4,301 | 4,004 |
| **Total** | **147,972** | **139,251** |

## 23. COMMITMENT AND CONTINGENCIES

### *i. Legal*

The Company is involved in routine legal procedures in the ordinary course of business. There are no outstanding lawsuits as at 31 December 2015.

There are no additional known commitments or contingencies as at 31 December 2015.

(All amounts expressed in EUR, unless otherwise stated)

## 24. RELATED PARTY TRANSACTIONS

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

- Sava RE. – Parent Company (100%);
- Illyria sh.a. – Subsidiary of Sava Re;
- Primoz Mocivnik, Chairman of the Board of Directors (BoD);
- Ramis Ahmetaj, member of the BoD and General Director of the Company;
- Rok Moljk, member of the BoD;
- Gianni Sokolic, member of the BoD;
- Robert Sraka, member of the BoD;
- Albin Podvorica, Deputy General Director.

***Transactions with related parties***

A summary of related party transactions, conducted on an arm's length basis, for the years ended 31 December 2015 and 2014 are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Key management personnel remuneration | 78,292 | 78,292 |
| Due to Sava RE | 35,549 | 36,182 |
| Due from Sava RE | 5,868 | 6,140 |
| Due to Illyria Sh.a. | 2,085 | - |
| **Total** | **122,431** | **120,614** |

***Transactions with parent company***

The Company signed a reinsurance contract with Sava Re on 19 November 2008, which is also the Company's 100% shareholder.

During 2015 the Company ceded EUR 35,549 (2014: EUR 36,182) to Sava Re related to gross written premiums contracted during 2015. The entire amount remains outstanding to be paid to SAVA RE as at 31 December 2015. See note 18 for details of premiums ceded to SAVA RE by life assurance products.

During 2015 the Company became entitled to EUR 5,868 (2014: EUR 6,140) from SAVA RE representing reinsurance commission, see note 19 for details of reinsurance commission by life assurance products.

***Transactions with Illyria Sh.a. – sister company and subsidiary of Sava Re***
The Company has contracted professional services consisting of information technology, legal, office maintenance, medical censorship, and internal audit, from the sister company Illyria sh.a. totaling EUR 25,015 for the year ended 31 December 2015 (2014: EUR 23,077).

## 25. SUBSEQUENT EVENTS

There are no subsequent events that would require either adjustments or additional disclosures in the financial statements.

# Supplementary Schedules

## Table 1: Required solvency margin supplementary insurance - Personal Accident

| **Premium basis (€)** | | **31 December 2015** |
|---|---|---|
| written premium | 1 | 101,726 |
| unearned premium reserve at the begining of the year | 2 | 8,729 |
| unearned premium reserve at the end of the year | 3 | 8,594 |
| **Earned premium ([1] + [2] - [3])** | 4 | **101,861** |
| Premium received from reinsurance | 5 | - |
| **Total premium ([4] + [5])** | 6 | **101,861** |
| sum up to 10 mio x 18/100 | 7 | 18,335 |
| sum above 10 mio x 16/100 | 8 | - |
| **Total premium basis ([7] + [8])** | 8 | **18,335** |
| Reinsurance ratio | 9 | 0.82 |
| **Required margin on premium basis([8]*[9])** | **10** | **15,035** |

| **Claims basis (€)** | | **31 December 2015** |
|---|---|---|
| Claims paid | 11 | 17,304 |
| Claims reserves at the begining of the year | 12 | 94,102 |
| Claims reserves at the end of the year | 13 | 112,449 |
| **Total claims ([11] - [12] + [13])** | 14 | **35,651** |
| claims up to 7 mio EUR x 26/100 | 15 | **9,269** |
| claims above 7 mio EUR x 23/100 | 16 | **-** |
| **Total ([15] + [16])** | 17 | **9,269** |
| Reinsurance ratio | 18 | 1.00 |
| **Required margin on claims basis ([17]*[18])** | 19 | **9,269** |

| **Required solvency margin (€)** | | **31 December 2015** |
|---|---|---|
| **Max (([10],[19])** | 20 | **15,035** |

**(All amounts expressed in EUR, unless otherwise stated)**

**Table 2: Required Solvency Margin**

| **Required solvency margin (€)** | | | **31 December 2015** |
|---|---|---|---|
| | | | 12.2. a,b |
| factor (12.2. d) | | 1 | 4% |
| Gross mathematical provisions | without profit sharing bonus | 2 | 2,921,881 |
| | profit sharing bonus | 3 | 35,036 |
| | **total** | **4** | **2,956,917** |
| Net mathematical provisions | without profit sharing bonus | 5 | 2,921,881 |
| | profit sharing bonus | 6 | 35,036 |
| | **total** | **7** | **2,921,881** |
| ratio (not less than 0,85) | | 8 | 1.00 |
| **First result (12.2.d)** | | **9** | **118,277** |
| Capital at risk | death with term up to three years | 11 | 1,030,236 |
| | death with term three to five years | 12 | 12,015 |
| | other life insurances | 13 | 30,655,511 |
| | **total ( [11] * 0,1% + [12] * 0,15% + [13] * 0,3%)** | **14** | **93,015** |
| Capital at risk net of reinsurance | | 15 | 25,992,165 |
| ratio (not less than 0,5) | | 16 | 0.85 |
| **Second result (12.2.e)** | | **17** | **79,063** |
| **Sum first and second result** | | **18** | **197,340** |

| | | **This year** |
|---|---|---|
| Required solvency margin life (12.2) | 19 | 197,340 |
| Required solvency margin supplementary insurance (12.3) | 20 | 15,035 |
| Required solvency margin capital redemption (12.4) | 21 | - |
| Required solvency margin tontine (12.5) | 22 | - |
| Required solvency margin unit linked (12.6) | 23 | - |
| Required solvency margin | 24 | 212,375 |
| Guarantee fund (13.1) ( [24] / 3 ) | 25 | 70,792 |
| Guarantee fund (13.2) | 26 | 3,000,000 |
| Guarantee fund (max( [25] , [26] ) | 27 | 3,000,000 |
| **Required available solvency margin (max( [24] , [27] )** | **28** | **3,000,000** |

**(All amounts expressed in EUR, unless otherwise stated)**

**Table 3: Available solvency margin**

| **Section 11.2** | | **31 December 2015** |
|---|---|---|
| Paid-up share capital (a) | 1 | 3,285,893 |
| reserves (b) | 2 | - |
| profit brought forward (c) | 3 | 235,362 |
| losses brought forward (c) | 4 | - |
| profit reserves (d) | 5 | - |
| own shares (d) | 6 | - |
| **Total (1+2+3-4+5-6)** | **7** | **3,521,255** |
| **Guarantee fund** | **8** | **3,000,000** |
| **Adequacy (Section 13)** | **9** | **521,255** |
| Other available solvency margin (12.3., 12.4.) | 10 | |
| **Total available solvency margin (7+ 10)** | **11** | **3,521,255** |
| Required solvency margin | 12 | 212,375 |
| **Adequacy of solvency margin (11-12)** | **13** | **3,308,880** |

**(All amounts expressed in EUR, unless otherwise stated)**

**Table 4: Assets deemed to back insurance liabilities**

In accordance with CBK Rule no. 31 on Life insurance, life insurance companies operating in Kosovo may invest in the following categories of assets covering technical and mathematical reserves:

**Gross technical and mathematical provisions**

| | 31 December 2015 | |
|---|---|---|
| **Section 8** | **Amount of investment limit as per regulation** | **Assets deemed to back insurance liabilities** |
| **(a) investments** | **2,879,378** | **2,879,378** |
| (i) debt securities, bonds and other money- and capital-market instruments | 2,879,378 | 2,879,378 |
| (ii) loans | - | - |
| (iii) shares and other variable-yield participations | - | - |
| (iv) units in undertakings for collective investment in transferable securities (UCITS) and other investment funds | - | - |
| (v) land, buildings and immovable-property rights | - | - |
| **(b) debts and claims** | **-** | **-** |
| (vi) debts owed by reinsurers, including reinsurers' shares of technical provisions | - | - |
| (vii) deposits with and debts owed by ceding undertakings | - | - |
| (viii) debts owed by policy holders and intermediaries arising out of direct and reinsurance operations | - | - |
| (ix) advances against policies | - | - |
| (x) tax recoveries | - | - |
| (xi) claims against guarantee funds | - | - |
| **(c) others** | **580,625** | **580,625** |
| (xii) tangible fixed assets, other than land and buildings, valued on the basis of prudent amortization | - | - |
| (xiii) cash at Company and in hand, deposits with credit institutions and any other body authorized to receive deposits | 580,625 | 580,625 |
| (xiv) deferred acquisition costs | - | - |
| (xv) accrued interest and rent, other accrued income and prepayments | - | - |
| (xvi) reversionary interests | - | - |
| **Total** | **3,460,003** | **3,460,003** |
| **Technical provision** | | **3,119,776** |
| **Coverage level in percentage** | | **110.91%** |