JSC Insurance Company Alpha Group

Consolidate Financial Statements

For the year ended 31 December 2020

Together with Independent Auditor's Report

Content:

Consolidate Financial Statements

Notes to the Consolidate Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Insurance Company Alpha

Opinion

We have audited the consolidated financial statements of JSC Insurance Company Alpha (the Company) and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the consolidate financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the consolidate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

The engagement partner responsible for the audit resulting in this independent auditor's report is Ivane Zhuzhunashvili

For and on behalf of BDO LLC

Tbilisi, Georgia

15 April 2021

Tel: +995 32 2545 845
Fax: +995 32 2188 188
www.bdo.ge

2 Tarkhnishvili Street
Vere Business Center
0179 Tbilisi
Georgia

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For and on behalf of BDO LLC

Tbilisi, Georgia

15 April 2021

CONSOLIDATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Note	2020	2019
Gross written premiums		14,960	18,994
Reinsurer's share of gross written premium		(5,349)	(3,775)
Net written premium		**9,611**	**15,219**
Changes in provision for unearned premiums		(1,761)	2,667
Reinsurer's share in changes in provision for unearned premiums		1,765	117
Net insurance premiums earned	5	**9,615**	**18,003**
Commission income	6	1,149	1,250
Total insurance revenue		**10,764**	**19,253**
Insurance claims and loss adjustment expenses		(6,298)	(22,803)
Reinsurer's share in claims and loss adjustment expenses		2,193	6,819
Net insurance claims incurred	7	**(4,105)**	**(15,984)**
Employee benefit expenses		(3,116)	(3,379)
Depreciation and amortization expenses	17,18,19	(486)	(594)
Short-term lease expense		(86)	(404)
Impairment recovery/(charge) on financial assets	13	314	(737)
Other operating expenses	8	(1,853)	(2,790)
Operating expenses		**(5,227)**	**(7,904)**
Results from operating activities		**1,432**	**(4,635)**
Financial income, net	9	794	701
Net gain (loss) from foreign currencies		104	(86)
Other income, net		36	97
Profit/(loss) before income tax expense		**2,366**	**(3,923)**
Income tax expenses	10	(399)	(838)
Profit for the year		**1,967**	**(4,761)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**1,967**	**(4,761)**

The consolidate financial statements for the year ended 31 December 2020, were approved on behalf of the management on 15 April 2021 by:

General Director ______________________ Akaki Lomauri

Financial Director ______________________ Maia Khelashvili

Notes on pages 9-35 are the integral part of these consolidate financial statements.

CONSOLIDATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Thousands of Georgian Lari)

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General Director A Lomauri Akaki Lomauri

Financial Director M. Khelashvili Maia Khelashvili

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CONSOLIDATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Thousands of Georgian Lari)

	Note	2020	2019
Assets			
Cash and cash equivalents	11	1,895	1,879
Bank deposits	12	6,123	5,569
Insurance and reinsurance receivables	13	5,653	6,049
Trade and other receivables	14	2,007	1,785
Reinsurance assets	15	3,468	2,388
Inventories	16	163	210
Deferred tax assets	10	329	728
Property and equipment	17	1,110	1,229
Right of use assets	18	1,008	1,357
Intangible assets	19	6	65
Total assets		**21,762**	**21,259**
Equity			
Share capital	20	24,800	24,800
Accumulated loss		(17,855)	(19,822)
Total equity		**6,945**	**4,978**
Liabilities			
Insurance contract liabilities	15	10,518	12,701
Other insurance liabilities	21	1,463	624
Trade and other payables	22	985	895
Lease liabilities	18	1,525	1,859
Deferred commission income	6	326	202
Total liabilities		**14,817**	**16,281**
Total equity and liabilities		**21,762**	**21,259**

Notes on pages 9-35 are the integral part of these consolidate financial statements.

CONSOLIDATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	Share capital	Accumulated loss	Total
Balance at 31 December 2018	**24,800**	**(15,061)**	**9,739**
Total comprehensive loss for the year	-	(4,761)	**(4,761)**
Balance at 31 December 2019	**24,800**	**(19,822)**	**4,978**
Total comprehensive income for the year	-	1,967	**1,967**
Balance at 31 December 2020	**24,800**	**(17,855)**	**6,945**

Notes on pages 9-35 are the integral part of these consolidate financial statements.

CONSOLIDATE STATEMENT OF CASH FLOW

For the year ended 31 December 2020

(Thousands of Georgian Lari)

	2020	2019
Cash flows from operating activities		
Insurance premiums received	12,705	19,549
Insurance claims paid	(11,211)	(19,831)
Reinsurance premiums paid	(40)	(209)
Reinsurance claims received	1,616	1,574
Cash received from subrogation and disposal of repossessed assets	1,738	1,007
Acquisition costs paid	(626)	(1,021)
Salaries and benefits paid	(3,183)	(3,635)
Other expenses paid	(1,089)	(1,300)
Interest received	319	719
Net placement of bank deposits	600	-
Guarantee amount received/(returned), net	174	(1,140)
Cash flows from operating activities	**1,003**	**(4,287)**
Interest paid	(128)	(147)
Cash flows from operating activities	**875**	**(4,434)**
Cash flows from investing activities		
Purchase of property and equipment	(114)	(517)
Proceeds from disposal of property and equipment	89	111
Cash flows from investing activities	**(25)**	**(406)**
Cash flows from financing activities		
Receipt of borrowed funds	1,600	1,775
Repayment of borrowed funds	(2,151)	(1,235)
Repayment of lease liabilities	(283)	(95)
Cash flows from financing activities	**(834)**	**445**
Net increase/(decrease) in cash and cash equivalents	**16**	**(4,395)**
Cash and cash equivalents at the beginning of the year	**1,879**	**6,274**
Cash and cash equivalents at the end of the year	**1,895**	**1,879**

Notes on pages 9-35 are the integral part of these consolidate financial statements.

1. General information

JSC Insurance Company Alpha (the Company) was established in 2009. The Company possesses insurance license issued by the National Bank of Georgia for life and non-life insurance products. Insurance Company Alpha offers complete non-life insurance package for corporate and individual clients. It includes health, property, motor, transport, travel, cargo, financial risk, air transport and so on. Headquarter of the Company is located in Tbilisi. The Company's legal address is 16 Kazbegi St. Tbilisi Georgia. '

As at 31 December 2020 and 2019 the Company was 100%-owned by Aversi Pharma LLC. Aversi Pharma LLC is 67% and 33% owned by the ultimate shareholders Paata Kurtanidze and Nikoloz Kurtanidze respectively. The Company is the parent company of the Group. As at 31 December 2020 and 2019 the Company owned (100% share) a subsidiary –Alpha LLC, which main activity is marketing and intermediate activities.

Separate financial statement

In accordance with the Law of Georgia on Accounting, Reporting and Auditing, the Group is obliged to prepare the separate financial statement of the Company and submit it to the regulatory body. The Group' subsidiary Alpha LLC did not conduct substantial operations during 2020 and 2019 and did not hold substantial assets and liabilities at the end of the reporting years. The management believes that the Group's consolidated financial statements for the year ended 31 December 2020 does not differ significantly from the separate financial statements of JSC "Insurance Company Alpha" and, therefore, the consolidated report reflects the separate financial statements of the parent company.

2. Basis of preparation

Statement of compliance

These consolidate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs). The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements are disclosed in Note 3.

Basis of measurement

The financial statements have been prepared under the historical cost bases. Amounts are rounded to the nearest thousand, unless otherwise stated. The reporting period for the Group is the calendar year from January 1 to December 31.

Going concern

In determining the appropriateness of the basis of preparation, the management of the Group has considered the impact of the COVID-19 pandemic on the position of the Group at 31st December 2020 and its operations in the future. The response of governments in dealing with the pandemic has different impact on various operating segments. Pandemic has not had impact on the Group's going concern despite its effect on operations, cash flow and financial position of the Group. These financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Group in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Group.

Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2020

There have been adopted some new standards and interpretations neither of which have material effect in the Group's financial statements for the year ended 31 December 2020:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16)
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and

2. Basis of preparation (continued)

- Revisions to the Conceptual Framework for Financial Reporting.

b) New standards interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations, which have been issued by the IASB, that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is:

IFRS 17 – Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are, as follows:

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

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date. The Group is currently assessing the impact.

Other changes

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least

2. Basis of preparation (continued)

twelve months after the reporting period. The amendments also clarify that ‘settlement’ includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022.However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the financial statements.

3. Significant accounting estimates and judgments

Group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under non-life insurance contracts is the Group’s most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims. For general insurance contracts estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty General insurance claims provisions are not discounted for the time value of money.

b) Useful lives of property equipment and intangible assets

Property equipment and intangible assets are depreciated over their useful lives. Useful lives are based on the management's estimates of the period, that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

c) Impairment of non-financial tangible and intangible assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the financial statements.

d) Deferred tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Estimation of future taxable profit are related significant uncertainties. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

e) Impairment of financial assets

The Group assesses the probability of the non-payment of financial assets. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss. Significant and unanticipated changes to these assumptions and estimates included within the impairment of financial assets could result in significantly different results than those recorded in the financial statements.

3. Significant accounting estimates and judgments (continued)

f) Lease term, incremental borrowing rate (IBR) and lease payments

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Group. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payments for renewal periods equal to the contractual amount and will remain unchanged throughout the lease term

4. Financial instruments - risk management

The activities of the Group are exposed to various risks. Risk management therefore is a critical component of its insurance activities. Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification measurement and daily monitoring subject to risk limits and other controls. Each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Group's operations are those related to credit liquidity and market movements in interest and foreign exchange rates. A summary description of the Group's risk management policies in relation to those risks follows.

Capital management objectives policies and approach

The Group has established the following capital management objectives policies and approach to managing the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Group thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its owners.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders' regulators and stakeholders.

The operations of the Group are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise. The Group's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the National Bank of Georgia directives.

Approach to capital management

The Group seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to shareholders and policyholders. The Group's approach to managing capital involves managing assets liabilities and risks in a coordinated manner assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual

4. Financial instruments - risk management (continued)

claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims severity of claims actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected by change in any subset of the portfolio as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Group establishes underwriting guidelines and limits which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Group primarily uses the “loss ratio” to monitor its insurance risk. The loss ratio is defined as net insurance claims divided by net insurance revenue. The following table shows the Group’s loss ratios calculated on a net basis:

	2020	2019
Loss ratio	38%	83%

The Group principally issues the following types of general insurance contracts: property, motor, third party liability, personal accident, Casco, travel, cargo, medical (health) and third-party liability. Such type insurance policies usually cover twelve months duration. For non-health insurance contracts, the most significant risks arise from climate changes and natural disasters. For healthcare contracts the most significant risks arise from lifestyle changes epidemic and so on. These risks vary significantly in relation to the location type and industry of the risk insured. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further strict claim review policies to assess all new and ongoing claims regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements.

Insurance risk sensitivity

The management believes that due to the short-term nature of the contract, the insurance portfolio is sensitive mainly to the expected variability of the loss ratio. The Group considers the actual rate of loss, among other factors, in the formation of future insurance rates.

The sensitivity of the Group to the loss ratio in the conditions of increase and decrease by 0.2 points is profit / (loss) GEL751 thousand (2019 - 727 thousand GEL). Management estimates that a 0.2-point change is a reasonable limit for a possible change in the loss ratio. The sensitivity analysis includes only the expected net insurance income from the existing portfolio at the end of the reporting period and a reasonable change in the net insurance loss.

Insurance risk concentration

Concentration of insurance risk exists when a particular case or group of cases has a significant impact on the Group's liabilities. Such concentration may arise on a single insurance contract and / or a combination of insurance contracts. The Group uses reinsurance contracts to manage risk concentration. Based on the management estimates, the concentration of insurance risks is expressed by the distribution of the net insurance premium earned by insurance types (Note 5).

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the insured sector and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims’ exposures. However, given the uncertainty in establishing claims reserve it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for Incurred but not reported (IBNR) claims and a reserve for reported claims not yet settled.

(Thousands of Georgian Lari)

4. Financial instruments - risk management (continued)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group where information about the claim event is available.

Financial Risk

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Currency risk

Principal financial instruments

	2020	2019
Reinsurance assets	1,115	1,800
Insurance and reinsurance receivables, net of impairment	5,653	6,049
Trade and other receivables, net of impairment	1,486	1,337
Placements with banks net of Deposit-secured loan	6,123	5,569
Cash and cash equivalents	1,895	1,879
Total financial assets	**16,272**	**16,634**
Insurance contract liabilities	4,734	8,678
Other insurance liabilities	1,463	624
Trade and other payables	985	895
Lease liabilities	1,525	1,859
Total financial liabilities	**8,707**	**12,056**

Fair value of financial instruments

Several assets and liabilities included in the Group's financial statements require disclosure of, fair value. The fair value measurement of the Group's financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortized 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 risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets approximate fair value due to their short-term maturities.

Liabilities carried at amortized cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Group considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair value.

(Thousands of Georgian Lari)

4. Financial instruments - risk management (continued)

The fair value of Lease liabilities and Bank deposits are based on the discounted future cash flows. The fair value of lease liabilities and bank deposits was calculated using market rates based on the range from 7% to 12% and from 13% to 15%, respectively. Carrying amounts of lease liabilities and bank deposits approximate fair value.

The fair value of cash and cash equivalents were determined using level 1 measurement, the fair value of bank deposits was determined using level 2 measurement and the fair value of other financial assets and liabilities were determined using level 3 measurement.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the insurance and reinsurance receivables. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's Management has established a credit policy under which each customer is analyzed individually for creditworthiness before the Group's standard payment and service providing terms and conditions are offered. The Group's review includes external ratings when available and in some cases bank references. Credit limits are established for each customer individually. The carrying amount of financial assets represents the maximum credit exposure. The following table shows the maximum exposure to credit risk.

	2020	2019
Reinsurance assets	1,115	1,800
Insurance and reinsurance receivables, net of impairment	5,653	6,049
Trade and other receivables	1,486	1,337
Placements with banks	6,123	5,569
Cash and cash equivalents	1,895	1,876
Total financial assets	**16,272**	**16,631**

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. In order to manage liquidity risk the Group performs regular monitoring of future expected cash flows which is a part of assets/liabilities management process. The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 1 year	1 year to 5 years	More than 5 years	Total 2020
Insurance contract liabilities	4,734	-	-	4,734
Other insurance liabilities	1,463	-	-	1,463
Trade and other payables	985	-	-	985
Lease liabilities	369	1,475	-	1,844
Total financial liabilities 2020	**7,551**	**1,475**	**-**	**9,026**
Insurance contract liabilities	8,678	-	-	8,678
Other insurance liabilities	624	-	-	624
Trade and other payables	895	-	-	895
Lease liabilities	378	1,511	378	2,267
Total financial liabilities 2019	**10,575**	**1,511**	**378**	**12,464**

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors. Market risk arises from the Group's use of interest bearing tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk).

(Thousands of Georgian Lari)

4. Financial instruments - risk management (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group has not floating interest rates financial instruments.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The following table shows the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities.

	2020	2019
Financial assets		
Insurance and reinsurance receivables net of impairment	1,416	2,198
Trade and other receivables	276	340
Total financial assets	**1,692**	**2,538**
Financial liabilities		
Other insurance liabilities	1,275	381
Lease liabilities	1,171	1,454
Total financial liabilities	**2,446**	**1,835**
Open balance sheet position	**(754)**	**703**

The following table details the Group's sensitivity to a 20% increase and decrease in the GEL against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The following table shows impact on profit before tax based on asset values.

	2020		**2019**	
	USD/GEL + 20%	USD/GEL - 20%	USD/GEL + 20%	USD/GEL - 20%
Profit/(loss)	(151)	151	141	(141)

5. Net insurance premiums earned

The following table shows net insurance premium earned by insurance types.

2020	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Changes in provision for unearned premiums, net of reinsurance	Net insurance premiums earned
Health	4,877	-	4,877	(98)	4,779
Casco*	5,698	(2,210)	3,488	(85)	3,403
Air transport	1,577	(1,577)	-	-	-
Property	1,818	(1,213)	605	7	612
Financial risk	248	(101)	147	47	194
Cargo	210	(179)	31	2	33
Travel	63	-	63	1	64
Personal accident	(60)	-	(60)	130	70
Other liabilities	529	(69)	460	-	460
Total	**14,960**	**(5,349)**	**9,611**	**4**	**9,615**

(Thousands of Georgian Lari)

5. Net insurance premiums earned (continued)

2019	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Changes in provision for unearned premiums, net of reinsurance	Net insurance premiums earned
Health	7,718	-	7,718	2,864	10,582
Casco*	6,511	(2,094)	4,417	(167)	4,250
Property	2,043	(1,014)	1,029	35	1,064
Financial risk	1,310	(475)	835	198	1,033
Personal accident	485	-	485	(161)	324
Travel	255	-	255	-	255
Cargo	220	(192)	28	3	31
Other liabilities	452	-	452	12	464
Total	**18,994**	**(3,775)**	**15,219**	**2,784**	**18,003**

*The Group represents an insurer participating in the insurance system - a non-profit (non-commercial) legal entity "Compulsory Insurance center ". Gross written premium from the compulsory insurance for the year ended 31 December 2020 was GEL1,203 thousand (2019 – GEL2,262 thousand).

6. Commission income

The following table shows commission income and movement in deferred commission income.

	2020	2019
Deferred commission income as at 1 January	**202**	**156**
Gross written commission	1,273	1,296
Commission income recognised during the year	(1,149)	(1,250)
Deferred commission at 31 December	**326**	**202**

7. Net insurance claims incurred

	2020	2019
Insurance claims settled	(11,317)	(20,209)
Gross Change in outstanding claims	3,944	(3,922)
Subrogation	1,075	1,328
Insurance claims and loss adjustment expenses	**(6,298)**	**(22,803)**
Reinsurer's share of general insurance claims paid	2,878	5,712
Reinsurer's share of change in outstanding claims	(685)	1,107
Insurance claims and loss adjustment expenses recovered from reinsurers	**2,193**	**6,819**
Net insurance claims incurred	**(4,105)**	**(15,984)**

*The Group recognizes receivables and related income from subrogation reimbursements when the Group reliably estimates the expected cash flows. Recovery from subrogation is recognized net of the reinsurers' share.

(Thousands of Georgian Lari)

8. Other operating expenses

	2020	2019
Acquisition cost	(723)	(1,413)
Professional services	(291)	(283)
Compulsory insurance center expenses	(176)	(262)
Marketing expenses	(139)	(141)
Communication	(102)	(129)
Transportation	(76)	(41)
Stationary	(68)	(159)
Taxes other than income tax	(30)	(28)
Other	(248)	(334)
Total	**(1,853)**	**(2,790)**

* Professional services include the financial statements audit fee GEL34 for the years ended 31 December 2020 (2019 - GEL33 thousand).

9. Financial income, net

	2020	2019
Interest income from financial institution	899	860
Interest income on leaseback	23	-
Interest expenses on lease	(122)	(145)
Interest expenses on borrowings	(6)	(14)
Total	**794**	**701**

10. Income tax expense

The following table shows the reconciliation between theoretical and actual income tax.

	2020	2019
Profit (loss) before income tax	**2,366**	**(3,923)**
Applicable tax rate	15%	15%
Theoretical income tax	(355)	588
(Impairment)/recovery of deferred tax assets from tax-loss carry forward	-	(838)
Effect of permanent differences	(44)	(588)
Total	**(399)**	**(838)**

The following table shows deferred tax assets and liabilities.

	Asset	Liability	Net	Net Expense
2020				
Property and equipment	-	(149)	(149)	15
Intangible assets	38	-	38	2
Tax-loss carry forward	440	-	440	(416)
Tax asset/(liabilities)	**478**	**(149)**	**329**	**(399)**
2019				
Property and equipment	-	(164)	(164)	(1)
Intangible assets	36	-	36	10
Tax-loss carry forward	856	-	856	(847)
Tax asset/(liabilities)	**892**	**(164)**	**728**	**(838)**

Unrecognized deferred tax assets as at 31 December 2020 were GEL1,383 thousand (2019- GEL1,383 thousand).

(Thousands of Georgian Lari)

11. Cash and cash equivalents

	2020	2019
Cash in banks	1,887	1,876
Restricted cash	8	-
Cash on hand	-	3
Total	**1,895**	**1,879**

12. Bank deposits

	2020	2019
Current portion of replacement of bank	5,300	5,900
Accrued interest	823	220
Total placement with banks	**6,123**	**6,120**
Deposit-secured loan	-	(551)
Net placement with banks	**6,123**	**5,569**

Bank deposits includes the placements within Georgian Banks with an initial maturity of more than three months. Deposits are placed in the national currency. The Group is required to have deposits (required reserves) and cash in banking institutions, the amount is depending on the reserves amount which are arising from insurance contracts. The Group has not right to dispose the freely of bank deposits which is restricted by law.

13. Insurance and reinsurance receivables

	2020	2019
Due from policyholders (health insurance)	3,318	3,610
Due from policyholders (non-health insurance)	3,129	2,356
Due from reinsurers	134	1,325
	6,581	**7,291**
Less-Allowances for receivables from policyholders	(928)	(1,242)
Total	**5,653**	**6,049**

The Group applies simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for insurance and reinsurance receivables. To measure expected credit losses on a collective basis, insurance and reinsurance receivables are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the insurance and reinsurance receivables for similar types of contracts. The Group has not recognised the impairment provision for the insurance receivables from the related parties, since the Group does not have the credit impairment experience of these receivables.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The Group has identified the gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors in the countries where the Group operates.

The impact of the circumstances caused by Covid 19 on the expected credit loss (ECL)

Due to the unprecedented nature of COVID-19 pandemic and the uncertainties associated with it, the Group re-considered the implemented impairment model and applied management considerations within the methodology to reflect a COVID-19 effect in ECL. Based on economic analysis using observable and internal data, management considers that change in expected credit loss rates will differ by clients' operating segments. In order to calculate ECL, the Group groups its insurance and reinsurance receivables by the level of impact of Covid-19 into the following segments: „Segment 1", „Segment 2" and „Segment 3".

- Segment 1 - represents insurance and reinsurance receivables with low level of negative impact of covid-19 and it is estimated, that clients will recover their financial stability shortly. Management considers, that expected credit loss rate for these financial instruments will be increased by a small percentage;

(Thousands of Georgian Lari)

13. Insurance and reinsurance receivables (continued)

- Segment 2 - represents insurance and reinsurance receivables with moderate level of negative impact of covid-19 and it is estimated, that clients will recover their financial stability in the medium term. Management considers, that expected credit loss rate for these financial instruments will be increased by a moderate percentage;
- Segment 3 - represents insurance and reinsurance receivables with high level of negative impact of covid-19 and it is estimated, that clients will recover their financial stability in long run. Management considers, that expected credit loss rate for these financial instruments will be increased by a high percentage

In addition to macroeconomic factors, management also considered the characteristics of a particular client's operating segment, other circumstances and risk factors, reflecting the impact on the expected credit loss rate that was not considered in macroeconomic factors. Based on above-mentioned judgement, the Group updated ECL rates to reflect appropriate adjustments as at 31 December 2020.

The impact of other circumstances on the expected credit loss

The management estimated the expected and actual credit losses for the last three years and concluded that the actual recovery rate exceeded the expected results. Based on the analysis, management reduced the expected impairment rates for the individual overdue categories.

With appropriate adjustments due to the circumstances caused by Covid 19 and actual recovery rates, the Group has revised its expected credit loss rates as at 31 December 2020. The following table shows overdue status of insurance and reinsurance receivables and related expected credit loss.

	2020			2019		
	Receivable	Rate	Reserve	Receivable	Rate	Reserve
Related parties:						
Current	1,323	0%	-	1,079	0%	-
Past due:						
0-90 days	260	0%	-	180	0%	-
91-180 days	45	0%	-	142	0%	-
181-270 days	39	0%	-	110	0%	-
271-360 days	39	0%	-	39	0%	-
more than 360 days	107	0%	-	96	0%	-
Total related parties:	**1,813**		**-**	**1,646**		**-**
Non-related parties:						
Current	2,967	1.1% - 1.4%	(38)	3,612	1%	(36)
Past due:						
0-90 days	671	10.5% - 12.5%	(76)	685	25%	(171)
91-180 days	227	22% - 26.5%	(55)	388	50%	(194)
181-270 days	149	38.5% - 45.5%	(63)	329	70%	(230)
271-360 days	142	56% - 67%	(84)	201	90%	(181)
more than 360 days	612	100%	(612)	430	100%	(430)
Total non-related parties:	**4,768**		**(928)**	**5,645**		**(1,242)**
Impairment reserve	(928)			(1,242)		
Net receivable	**5,653**			**6,049**		

The following table shows movement in impairment allowance.

	2020	2019
1 January.	**(1,242)**	**(505)**
Impairment recovery/(charge) on financial assets	314	(737)
31 December.	**(928)**	**(1,242)**

(Thousands of Georgian Lari)

14. Trade and other receivables

	2020	2019
Financial assets		
Receivables from subrogation reimbursements	931	853
Receivable from financial lease	276	340
Other receivables	279	144
Total financial receivables	**1,486**	**1,337**
Prepayments	470	414
Other	51	34
Total non-financial receivables	**521**	**448**
Total	**2,007**	**1,785**

Receivables from subrogation reimbursements are credit-impaired at initial recognition. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The Group has divided receivables from subrogation reimbursements as “Group 1” and “Group 2”:

- Group 1 represents unsecured receivables, which includes receivables from third parties for losses of Casco insurance. The Group considers past experience and recognizes receivables from subrogation reimbursements when the Group reliably estimates the expected cash flows.
- Group 2 represents secured receivables, which includes receivables from policyholders for losses of financial risk insurance. The estimation of expected cash flow includes the net cash flow expected from the sale of the collateral.

Receivables from subrogation reimbursements are recognised net of the reinsurers’ share. The right of the Group, net of reinsurers’ share, for which the receivables were not recognised as at 31 December 2020 amounted to GEL3,007 thousand (2019- GEL2,740 thousand).

Receivable from financial lease arise from the sublease agreement to the Parent Company. Other receivables represent the refundable deposit for participation in state tenders,. The Group has not recognised the impairment provision for financial lease and other receivables, since the Group does not have the credit impairment experience of these receivables.

15. Reinsurance assets and insurance contract liabilities

Insurance contract liabilities	2020	2019
Unearned premium provision	5,784	4,023
Provisions for claims reported by policyholders	4,260	6,204
Provisions for claims incurred but not reported (IBNR)	474	2,474
Total	**10,518**	**12,701**

Reinsurance assets	2020	2019
Reinsurers’ share in unearned premium provision	2,353	588
Reinsurers’ share in provisions for claims reported by policyholders	932	679
Reinsurers’ share in provisions for claims incurred but not reported (IBNR)	183	1,121
Total	**3,468**	**2,388**

(Thousands of Georgian Lari)

15. Reinsurance assets and insurance contract liabilities (continued)

The following table shows analysis of movements in insurance contract liabilities and reinsurance assets.

a) Analyses of movement in provision for unearned premium:

Provision for unearned premium, gross	2020	2019
Balance at 1 January	**4,023**	**6,690**
Gross premium Written	14,960	18,994
Gross earned premium	(13,199)	(21,661)
Balance at 31 December	**5,784**	**4,023**

provision for unearned premium - reinsurer's share:	2020	2019
Balance at 1 January	**588**	**471**
Reinsurer's share of gross written premium	5,349	3,775
Gross reinsurer's earned premium	(3,584)	(3,658)
Balance at 31 December	**2,353**	**588**

b) Analyses of movement in claims provisions (gross of reinsurance)

	2020	2019
Total balance of claims provisions at 1 January	**8,678**	**4,756**
Payments in respect of prior and current year claims	(11,317)	(20,209)
New claims and changes in prior year claims	7,373	24,131
Provisions for claims reported by policyholders	**4,734**	**8,678**

Provision for claims - reinsurer's share:	2020	2019
Total balance of claims provisions at 1 January	**1,800**	**693**
Payments in respect of prior and current year claims	(2,878)	(5,712)
New claims and changes in prior year claims	2,193	6,819
Total claims provisions at 31 December	**1,115**	**1,800**

The major classes of insurance written by the Group include health, life, property, third party liability, Casco, travel, personal accident and cargo. Risks under these policies usually cover twelve-month duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are not discounted for the time value of money.

16. Inventories

	2020	2019
Repossessed assets	61	83
Salvage assets	24	45
Other inventories	78	82
Total	**163**	**210**

(Thousands of Georgian Lari)

17. Property and equipment

Historical cost	Land and buildings	Computer equipment	Office equipment	Vehicles	Lease hold improvements	Total
31.12.2018	**505**	**556**	**193**	**221**	**66**	**1,541**
Additions	27	190	125	22	153	**517**
Disposals	-	(7)	-	(139)	(39)	**(185)**
31.12.2019	**532**	**739**	**318**	**104**	**180**	**1,873**
Additions	13	17	42	35	7	**114**
Disposals	-	(97)	(7)	(27)	(46)	**(177)**
31.12.2020	**545**	**661**	**354**	**110**	**141**	**1,811**
Accumulated depreciation						
31.12.2018	**(46)**	**(269)**	**(126)**	**(15)**	**(1)**	**(457)**
depreciation	(14)	(95)	(39)	(18)	(45)	**(211)**
Disposals	-	7	-	14	3	**24**
31.12.2019	**(60)**	**(357)**	**(165)**	**(19)**	**(43)**	**(644)**
depreciation	(14)	(99)	(47)	(11)	(22)	**(193)**
Disposals	-	88	5	4	40	**137**
31.12.2020	**(74)**	**(369)**	**(207)**	**(26)**	**(25)**	**(701)**
Net book value						
31.12.2019	**472**	**383**	**154**	**83**	**137**	**1,229**
31.12.2020	**471**	**292**	**147**	**84**	**116**	**1,110**

18. Right of use assets

The Group’s lease agreements, for which right of use assets are recognized, include leases to the head office and front office. The lease of the head office is obtained from the parent Group. The contractual lease term includes a 60-month period for the front office and a 17-month period for the head office. The renewal option is implied through customary business practices. The following table shows the lease terms, the incremental borrowing rates (IBRs) and the remaining lease payments.

Office	Non-cancelable period	Extended period	Total lease term	Discount rate	Currency	Monthly lease payment (nominal)
Front	2 months	82 months	84 months	6.8%	USD	8 months 4,375 After 8 months 8,260
Head	2 months	82 months	84 months	12%	GEL	7,790

The management believes that it is reasonably certain to exercise the renewal options for the years, which corresponds to the residual useful life of lease hold improvement. During the year 2019, the Group update the non-cancelable period of the leased front office. This period increased from 2 months to 60 months. This change did not affect the assessment of the lease term, as the lease term estimated by the Group has not changed and exceeds the non-cancelable period of the lease.

The Group has no borrowings received in the current or comparable period with similar currency, maturity and terms. IBR was determined based on observable market data for a similar sector.

The lease agreements determine fixed lease payments from 1 January 2019 to 60 months for Front Office and 17 months for Beck Office. As the renewal option is implied through customary business practices the Group has used the same lease payments for the extended period.

(Thousands of Georgian Lari)

18. Right of use assets (continued)

The following table shows movement of right of use assets.

Historical cost	Front office	Beck Office	Total
At 1 January 2019	**1,404**	**449**	**1,853**
Disposals	(269)	-	**(269)**
As at 31.12.2019	**1,135**	**449**	**1,584**
Disposals	(173)	-	**(173)**
As at 31.12.2020	**962**	**449**	**1,411**
Accumulated amortisation			
At 1 January 2019	-	-	**-**
Amortisation	(201)	(64)	**(265)**
Disposals	38	-	**38**
As at 31.12.2019	**(163)**	**(64)**	**(227)**
Amortisation	(170)	(64)	**(234)**
Disposals	58	-	**58**
As at 31.12.2020	**(275)**	**(128)**	**(403)**
Net book value			
At 31 December 2019	**972**	**385**	**1,357**
At 31 December 2020	**687**	**321**	**1,008**

*At the end of 2019, the Group subleased part of the leased front office to the parent Group. The Group estimated the term of the sublease, including the exercise of the right of extension. The sublease term essentially equals to the term of the main lease. Therefore, the Group wrote off part of the right of use the assets in proportion to the subleased space and recognized the receivable from the financial lease. The financial lease receivables are presented within trade and other receivables (Note 14).

The Group terminated significant part of the lease agreements during 2019. The Group applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application, considered these leases as short-term leases. As at 31 December 2020 and 2019, the Group has short-term leases, which are mainly related to front offices. The non-cancelable period of such leases' ranges from 7 days to 180 days. The sum of the minimum lease payments for the non-cancelable period of short-term leases is GEL10 and GEL18 thousand respectively. The management believes that such leases can be easily replaced in the short term without significant penalty.

The following table shows movement in lease liabilities.

Lease liabilities	Front office	Beck Office	Total
At 1 January 2019	1,404	449	1,853
Interest expense	96	49	145
Lease payments	(147)	(93)	(240)
Foreign exchange movements	101	-	101
At 31 December 2019	**1,454**	**405**	**1,859**
Interest expense	80	42	122
Lease payments	(312)	(93)	(405)
Effect of cancelled lease	(115)	-	(115)
Foreign exchange movements	64	-	64
At 31 December 2020	**1,171**	**354**	**1,525**

(Thousands of Georgian Lari)

18. Right of use assets (continued)

The following table shows the distribution of lease liabilities by maturity.

	Front office	Beck Office	Total
Current portion	241	56	297
Non-current portion	930	298	1,228
At 31 December 2020	**1,171**	**354**	**1,525**

	Front office	Beck Office	Total
Due payment	48	-	48
Current portion	198	50	248
Non-current portion	1,208	355	1,563
At 31 December 2019	**1,454**	**405**	**1,859**

19. Intangible assets

The historical cost of intangible assets as at 31 December 2020 was GEL700 thousand (2019 - GEL700 thousand), accumulated amortisation was GEL694 thousand (2019 – GEL635 thousand), amortisation expense was GEL6 thousand (2019 – GEL65 thousand).

20. Share capital

As at 31 December 2020 and 2019 number of issued and fully paid shares were 34,396,000 with nominal value GEL0.721.

21. Other insurance liabilities

	2020	2019
Reinsurance payables	1,274	380
Acquisition costs payables	189	244
Total	**1,463**	**624**

22. Trade and other payables

	2020	2019
Trade payables	46	99
Liabilities from guarantee amount received	449	268
Salaries payables	269	255
Other liabilities	221	176
Penalty payables	-	97
Total	**985**	**895**

(Thousands of Georgian Lari)

23. Transactions with related parties

	2020			2019		
	Parent	Other	Total	Parent	Other	Total
Balance with related parties						
Insurance receivables	588	1,225	**1,813**	520	1,126	**1,646**
Trade and other receivables	276	-	**276**	340	-	**340**
Unearned premium provision	574	697	**1,271**	368	580	**948**
Provisions for claims reported by policyholders	252	1,050	**1,302**	834	1,589	**2,423**
Trade and other payables	205	-	**205**	222	-	**222**
Lease liabilities	354	-	**354**	405	-	**405**
Transaction with related parties						
Gross written premiums	984	1,162	**2,146**	955	1,024	**1,979**
Insurance claims settled	(1,488)	(1,723)	**(3,211)**	(1,550)	(1,802)	**(3,352)**
Interest expenses	(42)	-	**(42)**	(49)	(2)	**(51)**
Interest paid	23	-	**23**	-	-	**-**
Repayment of borrowed funds	-	-	**-**	600	635	**1,235**
Repayment of lease liabilities	-	-	**-**	(600)	(635)	**(1,235)**

Key management personnel compensation for the year ended 31 December 2020 was GEL234 thousand (2019-GEL438 thousand). Related parties include owners, subsidiary and entities under common ownership and control with the Group and members of key management personnel. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

24. Contingencies and Commitments

Legal proceedings - As at 31 December 2020 the Group was engaged in some litigation proceedings with regard to the reimbursement of insurance cover. Total amount of compensation that litigants requested is GEL275 thousand. From these amount GEL185 thousand is recognised within reported but not settled insurance claims reserves (RBNS). Based on legal advice received supports, the management belief that it is not probable that an outflow of resources embodying economic benefits will be required to settle the outstanding requested amount from litigations. Total requested amount form litigation for which provision is not recognized as at 31 December 2020 represents GEL90 thousand.

Taxes - Georgian tax legislation may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Regulatory requirements – The Group is obliged to satisfy minimum capital requirements at all stages of insurance activity. Minimum capital requirements are determined by the LEPL Insurance State Supervision Service of Georgia. As at 31 December 2020 minimum capital required for the Group amounted to GEL4,200 thousand. Furthermore, during the whole period of its activity, the Group is obliged to place national or foreign currency debt securities in commercial bank registered in Georgia, the amount of which is determined according to the minimum capital required by the legislation of Georgia for insurance organisations registered in Georgia. As at 31 December 2020 minimum placement required for the Group amounted to GEL4,200 thousand. From 31 December 2021, the minimum capital amount will increase to GEL7,200 thousand.

LEPL Insurance State Supervision Service of Georgia also requires the Group to have assets for covering insurance reserves. The assets permitted to cover insurance reserves are determined by the Regulatory body. Due to the same requirement, the Group has to maintain cash and cash equivalents, not less than 10% of total insurance reserves, placed in commercial bank registered in Georgia. As at 31 December 2020 the Group was using cash and cash equivalents as well as placements with banks for covering insurance reserves.

25. Events after the reporting period

There have not been material adjusting or non-adjusting events after the balance sheet.

26. Summary of significant accounting policy

Principal accounting policies applied in the preparation of these consolidate financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

26.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

The consolidated financial statements present the results of the company and its subsidiaries (the Group) as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

26.2 Foreign currency translation

a) Functional and presentation currency

Items included in the consolidate financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidate financial statements are presented in Georgian lari which is the Group’s functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within “Foreign exchange gains and losses”. At 31 December 2020 and 2019 the closing rate of exchange used for translating foreign currency balances was:

(Thousands of Georgian Lari)

26. Summary of significant accounting policy (continued)

	USD	EUR
Exchange rate as at 31.12.2020	3.2766	4.0233
Exchange rate as at 31.12.2019	2.8677	3.2095

26.3 Insurance and investment contracts – classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

26.4 Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalized as an intangible asset (DAC). All other costs are recognized as expenses when incurred. The DAC is subsequently amortized over the life of the contracts as premium is earned;

The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is charged to revenue.

26.5 Liability adequacy test

At each end of the reporting period the Group assess whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency are be recognized in profit or loss.

26.6 Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment on annual basis. If there is objective evidence that the reinsurance asset is impaired the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is calculated following the same method used for these financial assets.

26.7 Receivables and payables related to insurance contract

These include amounts to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is calculated under the same method used for these financial assets.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example salvage). The Group may also have the right to require third parties the payment of some or all insurance claim (for example subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property. Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in trade and other receivable

26. Summary of significant accounting policy (continued)

line item. The receivable is the assessment of the amount that can be recovered from the action against the liable third party.

Receivables from subrogation reimbursements are credit-impaired at initial recognition. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The Group considers past experience and recognizes receivables from subrogation reimbursements when the Group reliably estimates the expected cash flows. The estimation of expected cash flow includes the net cash flow expected from the sale of the collateral.

26.8 Reserves for loss and loss adjustment expenses

Reserves are established for the payment of losses and loss adjustment expenses (LAE) on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported but not settled insurance claims (RBNS) and reserves for incurred but not reported losses (IBNR).

(i) reported but not settled insurance claims (RBNS)

The Group forms reserve for reported but not settled involving known claims of insurers (re-insurers) at the reporting date confirmed by the relevant statements. The amount of reserve for reported but not settled insurance claims at the reporting date are the amount of reserved unpaid insurance money under known claims of insurers with respect to which the decision on complete or partial failure in premiums payment was not made. The amount of reserve for reported but not settled insurance claims is reported in the Group's balance sheet as liabilities.

(ii) reserves for incurred but not reported losses (IBNR)

IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported. The reserve for incurred but not reported insurance claims is formed by the Group at the end of reporting date and is calculated based on the Group's past experience. The amount of reserve for incurred but not reported insurance claims is reflected in the Group's balance as liabilities.

26.9 Insurance revenue and reinsurance expenses

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognized on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of written in prior accounting periods. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered in the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts. Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

26.10 Financial instruments

Financial assets

Under the accounting policies financial assets are classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). The Group's management has assessed which business models apply to the financial assets held by the Group and has classified all financial assets within "financial assets measured at amortised cost" category.

26. Summary of significant accounting policy (continued)

Financial assets at amortized cost

These assets arise principally from insurance activities, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for current and non-current insurance and reinsurance and other receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the insurance and reinsurance and other receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the insurance and reinsurance and other receivables. For insurance and reinsurance and other receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within other operating expenses in the statement of comprehensive income. On confirmation that the insurance and reinsurance and other receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise insurance and reinsurance receivables, trade and other receivables placement with banks and cash and cash equivalents in the statement of financial position. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group has classified all financial as liabilities within “Other financial liabilities” category. Other financial liabilities include the following items: Other insurance liabilities, trade and other payables.

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Offset of financial assets and liabilities

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 recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

26.11 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and provision for impairment where required. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating.

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

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. Depreciation is charged to the statement of profit or loss. Depreciation is calculated on a straight-line basis at the following useful lives:

(Thousands of Georgian Lari)

26. Summary of significant accounting policy (continued)

Group	Useful life (year)
Buildings	50
Computers	5
Office equipment	5
Vehicles	10

The assets' useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

26.12 Lease

The Group as lessee

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 19. The following policies apply subsequent to the date of initial application, 1 January 2019.

Identifying the lease

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Group assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

Initial recognition

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognized on the Group's balance sheet as follows:

- an asset representing the right to use the underlying asset over the lease term,
- a liability for the obligation to pay the lease payments.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favor of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

At the commencement date, a Group measures the right-of-use asset at cost. The cost of the right-of-use asset is comprised:

- The amount of the initial measurement of the lease liability;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and

26. Summary of significant accounting policy (continued)

- the amount of any provision recognized where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

When the variable element of future lease payments dependent on a rate or index is revised, it adjusts the carrying amount of the lease liability to reflect the payments to make over the remaining terms, which are discounted at the same discount rate that applied on lease commencement. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognized in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Group elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Group. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The discount rate is not determined for the Group as a whole, but for each individual lease. The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

26. Summary of significant accounting policy (continued)

Determination of lease payments

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

Short-term leases and leases of low-value assets

The Group applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Whether a lease is a finance lease, or an operating lease depends on the substance of the transaction rather than the form of the contract. Lease classification is made at the inception date and is reassessed only if there is a lease modification.

At the commencement date, the Group recognizes assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The Group uses the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, the Group uses the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

The Group recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the lease. The derecognition and impairment requirements to the net investment in the lease corresponds to financial assets derecognition and impairment policy.

The Group recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Group applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

26.13 Intangible Assets

Software

Intangible assets are stated at cost less accumulated amortization and provision for impairment where required. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Amortization is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. The assets’ residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. Amortization is calculated on a straight-line basis for 5 years.

26.14 Impairment of tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

26. Summary of significant accounting policy (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

26.15 Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

26.16 Contingent assets and liabilities

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognized only when the contingency is resolved.

26.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

Based on new tax model for insurance sector (from 1 January 2023) the Group will recognise the income tax payable on the distribution of dividends as a liability and an expense in the period in which the dividends are declared

26. Summary of significant accounting policy (continued)

regardless of the period for which the dividends are declared or the period in which the dividends are ultimately distributed. Owing to the specific nature of the taxation system in Georgia, there are no differences between the carrying amounts and tax bases of the assets and liabilities. Accordingly, the Group recognises deferred tax assets to the amount that could be utilized till 1 January 2023.

26.18 Inventory

Inventories are stated at the lower of cost and net realizable value. The initial recognition of the salvage assets is fair value. Movements in goods for resale are accounted for using the individual cost method. The weighted average cost method is used for other inventories.

26.19 Share capital

The amount of Group's authorised Share capital is defined by the Group's Charter. The changes in the Group's Charter (changes in charter capital, ownership, etc.) shall be made only based on the decision of the Group's shareholders. The authorised capital is recognised as share capital in the equity of the Group to the extent that it was contributed by the shareholders to the Group. Shareholders contribution is recognised at the fair value. Share capital is recognized at nominal value. Difference in contribution fair value and shares nominal value are recognised as emission capital.