ARDI INSURANCE GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

These consolidated financial statements are presented in GEL.
Decimal symbol is dot (".") and digit-grouping symbol is comma (",")

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Ardi Insurance JSC (the "Company") and its subsidiary (together referred to as the "Group") at 31 December 2018 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2018 were approved by management on 10 April 2019.

On behalf of the Management Board:

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT AND SHAREHOLDERS OF ARDI INSURANCE GROUP

Opinion

We have audited the consolidated financial statements of Ardi Insurance JSC and its subsidiary (hereinafter the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of 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 2018, 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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As discussed in Note 3 to the financial statement, the 2017 financial statements and 2016 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Auditor's responsibilities relating other information;

The Law of Georgia on Accounting, Reporting and Auditing has explicitly required in Clause 10 of Article 7 that "PIE and enterprises of the first and second categories shall provide the management report to an Auditor/ Audit Firm. The Auditor/ Audit Firm according to Paragraph 6 and Paragraph 7 ((c) and (g)) of this Article will express its opinion on the management report.

Management is responsible for the preparation of management report and the same will be available to us after the date of this audit report. As per the said regulations the other information will comprise of;

- Entity's future development plans;
- Review of the research and development performed by the entity;
- Information on the branches of an entity;
- Review of the entity's credit, market, liquidity and cash flow risks and mechanisms for their management;
- Detailed information on the acquisition of its own shares;
- Enterprise goal and policy with respect to financial risk management and;

- Compliance with other Articles of the law of Georgia on Accounting, Reporting and Auditing (if applicable on the entity)

We will not express any form of assurance conclusion on management report. In connection with our audit of the financial statements, our responsibility will be limited to read the other information and, in doing so, we will consider whether the other information is materially consistent with the financial statements, regulatory requirements and in accordance with our knowledge obtained in the audit.

Other Matters

Refer to the section "Auditor's responsibilities relating other information" of this audit report and as per the requirements of Law of Georgia on Accounting, Reporting and Auditing, the management letter need to be written and be read in conjunction with these financial statements. The management report will be available to us after the signing of this audit report.

As the dates of approval of both these documents (financial statements & management report) will be different and if any material subsequent event occurs from the date of approval of these financial statements and till the date of management report than the management report may materially differ with these financial statements. However this material subsequent event will be reported in separate section of management report.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, 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 financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated 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.

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.

10 April 2019

RSM Georgia

RSM Georgia

Managing Partner: Giorgi Kvinikadze

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GEORGIA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018	2017, restated
Gross premiums		37,599,700	31,383,359
Premiums ceded to reinsurers		(3,692,931)	(3,762,651)
Net premiums		**33,906,769**	**27,620,708**
Changes in unearned premium reserve		(2,017,515)	(1,686,059)
Changes in unearned premium reserve ceded to reinsurers		(274,800)	(90,086)
Net insurance revenue	**4**	**31,614,454**	**25,844,563**
Interest income	5	577,098	476,283
Commission income	6	477,560	316,212
TOTAL REVENUE		**32,669,112**	**26,637,058**
Insurance benefits and claims paid	7	(21,544,498)	(20,739,039)
Claims ceded to reinsurers	7	1,032,700	2,611,738
Changes in other insurance reserves	17	(1,174,424)	3,068,210
Changes in other insurance reserves ceded to reinsurers	17	576,537	(3,086,790)
Income from subrogation and recoveries	8	1,112,526	1,323,222
Income from subrogation and recoveries ceded to reinsurers	8	(191,066)	46,001
Net benefits and claims		**(20,188,225)**	**(16,776,658)**
Commission expenses	9	(3,262,254)	(2,917,629)
General and administrative expenses	10	(6,597,786)	(5,552,018)
Marketing expenses	11	(850,175)	(762,977)
Impairment and write off (expense) / recovery	12	28,688	(242,575)
Interest expense	5	(188,695)	(98,474)
Loss on disposal of subsidiary		-	(27,406)
Other income and expenses, net		148,327	263,349
Net foreign exchange gain / (loss)		32,777	59,784
PROFIT BEFORE TAX		**1,791,769**	**582,454**
Income tax (expense) / benefit	13	(168,004)	194,135
PROFIT FOR THE YEAR		**1,623,765**	**776,589**
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,623,765**	**776,589**

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31-Dec-2018	31-Dec-2017, Restated	31-Dec-2016, restated
ASSETS				
Property and equipment	14	1,581,174	1,603,745	1,627,336
Intangible assets	15	286,358	192,307	107,473
Investment property	16	935,775	945,950	1,370,217
Deferred acquisition costs	9	1,638,979	1,299,942	1,107,733
Reinsurance assets	17	7,762,105	7,460,368	10,637,244
Other assets	18	2,893,329	3,193,896	2,091,807
Insurance and reinsurance receivables	19	29,132,196	30,302,645	25,319,545
Amounts due from credit institutions	20	5,425,131	2,896,788	2,682,026
Cash and cash equivalents	20	1,805,996	1,433,797	2,387,421
TOTAL ASSETS		**51,461,043**	**49,329,438**	**47,330,802**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	21	2,600,000	2,600,000	1,600,000
Revaluation surplus		158,907	158,907	158,907
Retained earnings		5,538,352	3,914,587	3,137,998
TOTAL EQUITY		**8,297,259**	**6,673,494**	**4,896,905**
LIABILITIES				
Liabilities from insurance contracts	17	27,169,563	23,891,087	25,273,238
Other insurance liabilities	22	11,423,928	15,231,238	14,549,661
Deferred commission income from reinsurance contracts	6	265,491	201,171	182,017
Borrowings	23	2,448,794	1,272,375	811,270
Trade and other payables	24	1,186,045	1,558,113	921,617
Deferred tax liability	13	194,130	75,354	-
Current income tax		475,833	426,606	696,094
TOTAL LIABILITIES		**43,163,784**	**42,655,944**	**42,433,897**
TOTAL EQUITY AND LIABILITIES		**51,461,043**	**49,329,438**	**47,330,802**

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Revaluation surplus	Retained earnings	Total
At 1 January 2017, restated	**1,600,000**	**158,907**	**3,137,998**	**4,896,905**
Issue of ordinary shares	1,000,000	-	-	1,000,000
Profit for the year, restated	-	-	776,589	776,589
At 31 December 2017, restated	**2,600,000**	**158,907**	**3,914,587**	**6,673,494**
Profit for the year	-	-	1,623,765	1,623,765
At 31 December 2018	**2,600,000**	**158,907**	**5,538,352**	**8,297,259**

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

CONSOLIDATED STATEMENT OF CASH FLOWS

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (insurance premium)	33,490,044	26,505,879
Payments to reinsurers	(2,389,506)	(1,615,282)
Net receipts of premiums	**31,100,538**	**24,890,597**
Payments for insurance claims	(20,496,291)	(19,803,407)
Reimbursements from reinsurers and subrogation	1,026,460	2,191,076
Net payments for insurance claims	**(19,469,831)**	**(17,612,331)**
Payments for acquisition costs	(656,774)	(2,392,782)
Payments to suppliers and employees	(8,509,792)	(5,363,227)
Net cash flow generated from operations	**2,464,141**	**(477,743)**
Interest paid	(176,290)	(103,324)
Taxes paid	(1,684,122)	(1,563,478)
Net cash generated by / (used in) operating activities	**603,729**	**(2,144,545)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed and intangible assets	(1,550)	(12,439)
Proceeds from sale of property, plant and equipment	7,000	94,940
Loans issued	(77,000)	(1,340,569)
Repayment of loans issued	544,924	1,146,904
Interest received	537,363	216,868
Disposal of subsidiary	-	(231)
Net cash generated by investing activities	**1,010,737**	**105,473**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of new borrowings	3,103,195	2,503,082
Repayment of borrowings	(1,952,633)	(2,067,853)
Proceeds from issue of shares	-	1,000,000
Net cash generated by financing activities	**1,150,562**	**1,435,229**
CASH AND CASH EQUIVALENTS		
At 1 January	**4,273,337**	**5,020,501**
Net increase in the year	2,765,028	(603,843)
Effect of exchange rate changes on cash and cash equivalents held	129,551	(143,321)
At 31 December	**7,167,916**	**4,273,337**
COMPRISING		
Cash and cash equivalents	1,805,996	1,433,797
Amounts due from credit institutions	5,425,131	2,896,788
TOTAL PER THE STATEMENT OF FINANCIAL POSITION	**7,231,127**	**4,330,585**
Less accrued interest	(63,211)	(57,248)
TOTAL FOR THE STATEMENT OF CASH FLOWS PURPOSES	**7,167,916**	**4,273,337**

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

1. GENERAL INFORMATION

Ardi Insurance JSC (the Company) is a Joint-Stock Company domiciled in and registered under the laws of Georgia. The Company operates by head office and 9 service centers and provides different insurance services in Georgia (see Note 4). The registered office of the Company is 3 Vazha-Pshavela avenue, Tbilisi.

Until October 2017 the Company owned 100% of Ardi Property Ltd (the Subsidiary) which is focused on buying foreclosed assets after incurring insurance claims. The Company and the Subsidiary are together referred to as the Group.

The shareholders of the Company are:

	2018	**2017**
Armaz Tavadze	60%	50%
Zaza Nishnianidze	20%	20%
Zurab Khizanishvili	15%	30%
William Thomas Ipsen	5%	-
	100%	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

These consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2018.

The consolidated financial statements comprise a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes. The statement of financial position format is in order of liquidity.

The consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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. When measuring the fair value of an asset or a liability, the Group uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group (working closely with external qualified valuers) using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

(B) APPLICATION OF NEW AND AMENDED STANDARDS

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by IASB that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. This refers to IFRS 9 *Financial Instruments* – the Group used temporary exemption of its adoption (see below).

The following Accounting Standards and Interpretations are most relevant to the Group:

- Amendments to IFRS 4 titled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, give all insurers the option to recognise in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 is applied before implementing IFRS 17 ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach').

- IFRS 9 *Financial Instruments* (issued in July 2014) – For the Group this standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2021. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
  - IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
  - For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
  - For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
  - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
  - The derecognition provisions are carried over almost unchanged from IAS 39.

- IFRS 17 *Insurance Contracts* (issued in May 2017) - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2021 (earlier application permitted only if IFRS 9 and IFRS 15 also applied), requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

(C) BASIS OF CONSOLIDATION

The Group's financial statements incorporate the results, cash flows, assets and liabilities of the Company and the Subsidiary until October 2017 when the Company sold its entire holding in the Subsidiary.

A subsidiary is an entity controlled by the Group, ie the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities (power over the investee). Subsidiaries are consolidated from the effective date of acquisition, which is the date on which the Group obtains control of the acquired business, until that control ceases. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

(D) JOINT ARRANGEMENTS: JOINT OPERATION

A joint arrangement is an arrangement of which two or more parties have joint control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (in contrast to joint venture, where the parties have rights to the net assets of the arrangement). Where the Group is a joint operator in a joint operation, it recognises in relation to its interest in a joint operation: (a) its assets, including its share of any assets held jointly; (b) its liabilities, including its share of any liabilities incurred jointly; (c) its revenue from the sale of its share of the output arising from the joint operation; (d) its share of the revenue from the sale of the output by the joint operation; and (e) its expenses, including its share of any expenses incurred jointly.

(E) INSURANCE REVENUE AND EXPENSES RECOGNITION

Gross premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

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 (see part G of this note).

Reinsurance premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised 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.

Insurance benefits and claims

Insurance claims include all claims occurring during the year, whether reported or not, claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries (subrogation), and any adjustments to claims outstanding from previous years.

(F) FINANCIAL INSTRUMENTS

Initial recognition and measurement

The Group recognises a financial asset or a financial liability in the consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition, the Group recognises all financial assets and financial liabilities at fair value. The fair value of a financial asset / liability on initial recognition is normally represented by the transaction price.

Subsequent measurement of financial assets

Subsequent measurement of financial assets depends on their classification on initial recognition. During the reporting period, the Group classified financial assets as loans and receivables - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or collectability. Typically trade and other receivables, bank balances and cash are classified in this category.

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

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

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

Subsequent measurement of financial liabilities

Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. During the reporting period, the Group did not classify any financial liabilities as held for trading or designated as at fair value through profit or loss. All the other financial liabilities are carried at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

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

Assets related to insurance

- Insurance premium receivable is the sum of earned (past due) and unearned premiums receivable.
- Reinsurance receivable is the reinsurer's share in claims payable or paid and commissions receivable from reinsurers.
- Reinsurance assets represent the reinsurer's share in liabilities from insurance contracts.
- Subrogation receivable is the fair value of recoveries receivable from third parties to reimburse some or all costs of insurance claims.

(G) LIABILITIES FROM INSURANCE CONTRACTS

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported (RBNS) or not (IBNR), together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. IBNR is calculated at the reporting date in accordance with the state regulation: 5% of annual gross premiums for all types of insurance contracts other than medical (health) and 2% of annual gross premiums for medical (health) insurance. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The unearned premiums reserve (UPR) represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Liability adequacy test

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

(H) DEFERRED ACQUISITION COSTS (DAC)

Those direct and indirect costs incurred during the financial period arising from the acquiring or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DACs are amortised over the period in which the related revenues are earned. The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

DACs are derecognised when the related contracts are either settled or disposed of.

(I) PROPERTY AND EQUIPMENT

On initial recognition, items of property and equipment are recognised at cost, which includes the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

After initial recognition, items of property and equipment other than buildings are carried at cost less any accumulated depreciation and impairment losses. Buildings are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows:

Buildings	4% straight line
Computers and other technical equipment	20% straight line
Furniture and office equipment	20% straight line
Vehicles	14% straight line
Other	20% straight line
Land is not depreciated	

Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leased assets

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the Group. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term.

(J) INTANGIBLE ASSETS

On initial recognition, intangible assets acquired separately are measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. The estimated useful life and amortisation method (15% straight line) are revised at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset - measured as the difference between the net disposal proceeds and the carrying amount of the asset - are recognised in profit or loss when the asset is derecognised.

(K) INVESTMENT PROPERTY

Investment properties are held to earn rental income and / or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The cost comprises the purchase price and any directly attributable expenditure (eg professional fees for legal services, property transfer taxes).

Subsequently, investment properties are carried at cost less any accumulated depreciation and impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life of 20 years. Land is not depreciated. Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(L) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(M) FOREIGN CURRENCY TRANSACTIONS

Foreign currency monetary assets and liabilities are translated into the functional currency of the Group (Georgian Lari, "GEL") using the exchange rates officially published by the National Bank of Georgia at the reporting date:

	GEL / USD	GEL / EUR
Exchange rate as at 31 December 2018	2.68	3.07
Average rate for the year ended 31 December 2018	2.53	2.99
Exchange rate as at 31 December 2017	2.59	3.10
Average rate for the year ended 31 December 2017	2.51	2.83
Exchange rate as at 31 December 2016	2.65	2.79

Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

(N) INCOME TAXES

Tax currently payable is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

Using the statement of financial position liability method, deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities in the consolidated statement of financial position and the corresponding tax base.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that the Group considers that it is probable (ie more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities, they relate to the same tax authority and the Group's intention is to settle the amounts on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

(O) PROVISIONS

Where, at the reporting date, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will settle the obligation, a provision is made in the statement of financial position. Provisions are made using best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period they arise.

(P) EQUITY

Equity instruments are contracts that give a residual interest in the net assets of the Group. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent those proceeds exceed the par value of the shares issued they are credited to a share premium account.

Dividends are recognised as liabilities when they are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the Shareholders' Annual General Meeting. Interim dividends are recognised when paid.

(Q) SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The 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.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under general 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 and for some type of policies, IBNR claims form the majority of the statement of financial position insurance liability. General insurance claims provisions are not discounted for the time value of money.

Impairment of insurance, reinsurance and subrogation receivables

The Group estimates impairment of receivables derived from insurance and reinsurance contracts. Factors that the Group considers whether a financial asset is impaired is its overdue status or bad credit rating of a debtor. The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

Deferred acquisition costs (DAC)

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. For long-term insurance contracts without fixed terms and insurance contracts with DAC are amortised over the expected total life of the contract as a constant percentage of estimated gross profit margins arising from these contracts in accordance with the accounting policy.

Useful lives of property and equipment and intangible assets

Property and 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.

Fair value of property

Fair value of properties is determined by independent professionally qualified appraisers. Fair value is mainly determined using the sales comparison method. The estimate is subject to change as new transaction data and market evidence becomes available.

Income tax

The Group is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities.

3. IMPACT OF RESTATEMENT OF COMPARABLE INFORMATION

The Group has corrected the following errors:

- Employee compensations expenses in amount of GEL 560,653 was not recognized for the year ended 31 December 2017;
- Allowance for impairment of insurance premium receivables was overstated by GEL 251,121 as at 31 December 2017 (2016: GEL 297,361);
- Reinsurer's share in subrogation receivable of GEL 150,000 was not recognized for the years ended 31 December 2017 and 2016;
- Current income tax payable was overstated by GEL 310,314 and deferred income tax liability was understated by GEL 75,354. Therefore, the effect of these adjustments on income tax expense was GEL 234,960 for the year ended 31 December 2017;
- The Group had offset receivables from and payables to reinsurers. Since the counterparties were different reinsurers, receivables of GEL 5,592,111 were recognised separately (2016: GEL 4,142,412).

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group has applied the changes retrospectively. Resulting restatements are provided below.

Statement of Comprehensive Income (extract)	**As previously reported for the year ended 31 December 2017**	**Restatement**	**Restated for the year ended 31 December 2017**
TOTAL REVENUE	26,637,058	-	26,637,058
Net benefits and claims	(16,776,658)	-	(16,776,658)
Commission expenses	(2,917,629)	-	(2,917,629)
General and administrative expenses	(4,991,365)	(560,653)	(5,552,018)
Marketing expenses	(762,977)	-	(762,977)
Impairment and write off expense	(493,696)	251,121	(242,575)
Interest expense	(98,474)	-	(98,474)
Loss on disposal of subsidiary	(27,406)	-	(27,406)
Other income and expenses, net	263,349	-	263,349
Net foreign exchange gain / (loss)	59,784	-	59,784
PROFIT BEFORE TAX	**891,986**	**(309,532)**	**582,454**
Income tax expense	(40,825)	234,960	194,135
PROFIT FOR THE YEAR	**851,161**	**(74,572)**	**776,589**

Statement of Financial Position (extract)	As previously reported for the year ended 31 December 2017	Restatement	Restated for the year ended 31 December 2017
ASSETS			
Insurance and reinsurance receivables	24,162,052	6,140,593	30,302,645
Other assets	19,026,793	-	19,026,793
TOTAL ASSETS	**43,188,845**	**6,140,593**	**49,329,438**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	2,600,000	-	2,600,000
Revaluation surplus	158,907	-	158,907
Retained earnings	3,841,798	72,789	3,914,587
TOTAL EQUITY	**6,600,705**	**72,789**	**6,673,494**
LIABILITIES			
Other insurance liabilities	8,928,474	6,302,764	15,231,238
Deferred tax liability	-	75,354	75,354
Current income tax	736,920	(310,314)	426,606
Other liabilities	26,922,746	-	26,922,746
TOTAL LIABILITIES	**36,588,140**	**6,067,804**	**42,655,944**
TOTAL EQUITY AND LIABILITIES	**43,188,845**	**6,140,593**	**49,329,438**

Statement of Financial Position (extract)	As previously reported for the year ended 31 December 2016	Restatement	Restated for the year ended 31 December 2016
ASSETS			
Insurance and reinsurance receivables	20,879,772	4,439,773	25,319,545
Other assets	22,011,257	-	22,011,257
TOTAL ASSETS	**42,891,029**	**4,439,773**	**47,330,802**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	1,600,000	-	1,600,000
Revaluation surplus	158,907	-	158,907
Retained earnings	2,990,637	147,361	3,137,998
TOTAL EQUITY	**4,749,544**	**147,361**	**4,896,905**
LIABILITIES			
Other insurance liabilities	10,257,249	4,292,412	14,549,661
Other liabilities	27,884,236	-	27,884,236
TOTAL LIABILITIES	**38,141,485**	**4,292,412**	**42,433,897**
TOTAL EQUITY AND LIABILITIES	**42,891,029**	**4,439,773**	**47,330,802**

4. NET INSURANCE REVENUE

	2018			2017		
	Gross premiums	**Premiums ceded to reinsurers**	**Net premiums**	**Gross premiums**	**Premiums ceded to reinsurers**	**Net premiums**
Medical (Health)	22,912,248	-	22,912,248	19,685,133	-	19,685,133
Suretyships	2,845,081	(1,582,062)	1,263,019	2,030,888	(1,170,764)	860,124
Road Transport Means	2,777,607	-	2,777,607	2,453,688	-	2,453,688
Property	2,613,146	(679,545)	1,933,601	3,006,613	(654,477)	2,352,136
Motor TPL (Compulsory)	1,859,142	-	1,859,142	-	-	-
Third Party Liability	1,500,662	(153,850)	1,346,812	1,092,124	(231,040)	861,084
Cargo	1,262,037	(486,899)	775,138	247,294	(4,602)	242,692
Motor Third Party Liability	391,161	(2,788)	388,373	379,150	-	379,150
Aviation Transport Means	383,118	(373,724)	9,394	486,407	(474,277)	12,130
Aviation TPL	361,026	(332,626)	28,400	1,045,480	(991,347)	54,133
Travel	260,925	-	260,925	236,115	-	236,115
Personal Accident	246,110	(4,508)	241,602	362,683	(55,489)	307,194
Life	96,300	(44,824)	51,476	260,302	(179,138)	81,164
Financial Loss Risks	48,331	-	48,331	97,482	(1,517)	95,965
Marine Transport Means	42,806	(32,105)	10,701	-	-	-
	37,599,700	**(3,692,931)**	**33,906,769**	**31,383,359**	**(3,762,651)**	**27,620,708**
Changes in unearned premium reserves	(2,017,515)	(274,800)	(2,292,315)	(1,686,059)	(90,086)	(1,776,145)
Net insurance revenue	**35,582,185**	**(3,967,731)**	**31,614,454**	**29,697,300**	**(3,852,737)**	**25,844,563**

The product called 'life insurance' is a short-term insurance contract, based on which a fixed amount is paid to a beneficiary when the insured person dies within the contract term.

Gross premiums include premiums of GEL 2,155,409 (2017: GEL 2,050,031) from fronting insurance contracts (contracts where 100% of insurance risk is reinsured) and premiums ceded to reinsurers include such premiums of GEL 1,452,222 (2017: GEL 1,873,683).

Compulsory insurance of Motor Third Party Liability refers to compulsory insurance of motor transport registered in foreign countries and moving in Georgia. It is administered by Compulsory Insurance Center ("CIC", Non-Commercial Legal Entity). The Center started functioning on 1 March 2018 in accordance with Georgian legislation. Compulsory insurance of MTPL is a joint operation where 17 insurance companies operating in Georgia (including the Group) are joint operators and share the insurance revenue and risks equally.

Unearned premium reserve is disclosed in Note 17.

5. INTEREST INCOME AND EXPENSE

	2018	2017
Interest income from loans issued	367,871	322,446
Interest income from deposits	209,227	153,837
Interest income	**577,098**	**476,283**
Interest expense on bank loans	(74,483)	(85,647)
Interest expense on other loans	(114,212)	(12,827)
Interest expense	**(188,695)**	**(98,474)**
Net interest income	**388,403**	**377,809**

6. COMMISSION INCOME

	2018	2017
Gross commission income	541,880	335,366
Commission income deferred	(156,766)	(108,643)
Amortization of prior period income deferred	92,446	89,489
Commission income	**477,560**	**316,212**

Movement of deferred commission income:

	2018	2017
Deferred commission income at 1 January	**201,171**	**182,017**
Gross commission income	541,880	335,366
Amortization	(477,560)	(316,212)
Deferred commission income at 31 December	**265,491**	**201,171**

7. INSURANCE BENEFITS AND CLAIMS PAID

	2018			2017		
	Paid	**Ceded to reinsurers**	**Net payment**	**Paid**	**Ceded to reinsurers**	**Net payment**
Medical (Health)	17,400,167	-	17,400,167	14,458,558	-	14,458,558
Road Transport Means	1,634,623	-	1,634,623	1,654,129	-	1,654,129
Suretyships	1,357,516	(703,900)	653,616	3,341,787	(2,129,286)	1,212,501
Property	758,704	(328,800)	429,904	948,898	(482,452)	466,446
Motor Third Party Liability	168,735	-	168,735	195,410	-	195,410
Travel	67,290	-	67,290	41,383	-	41,383
Financial loss Risks	61,906	-	61,906	66,525	-	66,525
Motor TPL (Compulsory)	59,773	-	59,773	-	-	-
Third Party Liability	23,042	-	23,042	11,543	-	11,543
Cargo	3,324	-	3,324	-	-	-
Personal Accident	2,871	-	2,871	1,353	-	1,353
Other Expenses related to claims handling	6,547	-	6,547	19,453	-	19,453
	21,544,498	**(1,032,700)**	**20,511,798**	**20,739,039**	**(2,611,738)**	**18,127,301**

8. SUBROGATION AND RECOVERIES

Movement of receivable from subrogation and recoveries:

	2018	**2017**
At 1 January	7,675,386	7,904,529
Net income from subrogations and recoveries	**1,112,526**	**1,323,222**
Compensations received	(983,975)	(1,552,365)
At 31 December	7,803,937	7,675,386

Movement of reinsurers' share in subrogation receivable:

	2018	**2017, restated**
At 1 January	6,612,374	6,658,375
Reinsurers' share in net income from subrogations and recoveries	**191,066**	**(46,001)**
Compensations received	(255,434)	-
At 31 December	6,548,006	6,612,374

9. COMMISSION EXPENSES (ACQUISITION COSTS)

	2018	2017
Acquisition costs	3,696,721	3,407,107
Cancellation	(95,430)	(297,269)
Acquisition costs deferred	(1,477,618)	(1,217,656)
Amortization of deferred acquisition cost	1,138,581	1,025,447
Commission expenses	**3,262,254**	**2,917,629**

Movement of deferred acquisition costs:

	2018	2017
Deferred acquisition costs, at 1 January	**1,299,942**	**1,107,733**
Expenses deferred	3,696,721	3,407,107
Cancellation	(95,430)	(297,269)
Amortization (acquisition costs)	(3,262,254)	(2,917,629)
Deferred acquisition costs, at 31 December	**1,638,979**	**1,299,942**

10. GENERAL AND OTHER ADMINISTRATIVE EXPENSES

	2018	2017, restated
Employee compensation	4,088,338	3,557,969
Rent	417,726	356,919
State monitoring fee	355,822	-
Membership fee of CIC	346,906	-
Depreciation and amortisation	246,027	222,024
Office expenses	184,168	206,416
Communication expenses	159,455	126,748
Representative expenses	100,794	74,234
Utilities	91,965	53,939
Audit and consultation expenses	81,578	150,675
Business trip	66,923	88,631
Bank commissions	41,365	48,535
Public register and notary service fees	40,879	163,259
Other G&A expenses	375,840	502,669
General and administrative expenses	**6,597,786**	**5,552,018**

During the 2018 year was created "OF Compulsory Civil Liability Insurance of foreign-Register Motor Vehicle Holders Operating within the Territory of Georgia" according to the requirements of legislation of Georgia and co-insurance system which is based on cooperation with insurers of insurance license holders, co-insurance system's participants was created "Compulsory Insurance Center". Membership fee of that center during the period consists to 346,906 GEL.

According to the "insurance Law of Georgia" article 19 approved by parliament of Georgia at December 22,2017, insurance company has paying state monitoring amounted GEL 355,855.

Employee compensation includes bonuses of 139,708 GEL (119,658 GEL for 2017 year).

11. MARKETING EXPENSES

	2018	2017
Salary of sales staff	601,732	581,578
Advertising expenses	235,473	173,134
Other sales expenses	12,970	8,265
	850,175	**762,977**

12. IMPAIRMENT AND WRITE OFF EXPENSE / (RECOVERY)

	2018	2017
Impairment of insurance premium receivable	105,734	732,595
Recovery of impairment of loans issued (other assets)	(134,422)	(489,765)
Write off of other assets	-	(255)
Impairment and write off expense / (recovery)	**(28,688)**	**242,575**

13. INCOME TAX

	2018	2017, restated
Current income tax expense	274,592	40,825
Deferred income tax expense	118,776	75,354
Write-off income taxes recognised in excess	(225,364)	(310,314)
Income tax expense / (benefit)	**168,004**	**(194,135)**

Reconciliation of income tax expense:

	2018	2017, restated
Profit before income tax expense	1,791,769	582,454
Temporary differences	(46,647)	(502,360)
Permanent differences	85,491	192,073
Taxable profit	**1,830,613**	**272,167**
Income tax expense (15%)	**274,592**	**40,825**

Deferred tax liability comprises temporary differences attributable to:

	2018	2017, restated
Property and equipment	68,334	-
Acquistion costs	(37,974)	(84,098)
Subrogation receivable, net of reinsurance	188,390	159,452
Liabilities from insurance contracts	(24,620)	-

Deferred tax liability	**194,130**	**75,354**

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. For insurance companies the law should have been effective for tax periods starting after 1 January 2019. However according to the latest amendments, it has been postponed for 4 years. Therefore, the Group recognized deferred income taxes related to property and equipment as at 31 December 2018.

14. PROPERTY AND EQUIPMENT

	Building	Computers and other technical equipment	Furniture and office equipment	Vehicles	Leasehold imp. and other	Total
Cost						
At 1 January 2017	**1,410,000**	**264,917**	**189,866**	**92,201**	**94,276**	**2,051,260**
Additions	-	66,910	33,838	-	52,817	153,565
At 31 December 2017	**1,410,000**	**331,827**	**223,704**	**92,201**	**147,093**	**2,204,825**
Additions	-	67,698	29,466	39,460	41,228	177,852
Disposals	-	-	-	(20,838)	(12,000)	(32,838)
At 31 December 2018	**1,410,000**	**399,525**	**253,170**	**110,823**	**176,321**	**2,349,839**
Accumulated depreciation						
At 1 January 2017	**60,000**	**159,379**	**106,941**	**36,738**	**60,866**	**423,924**
Depreciation for the period	60,000	51,577	32,400	14,673	18,506	177,156
At 31 December 2017	**120,000**	**210,956**	**139,341**	**51,411**	**79,372**	**601,080**
Depreciation for the period	60,000	50,162	31,264	14,514	25,087	181,027
Disposals	-	-	-	(7,442)	(6,000)	(13,442)
At 31 December 2018	**180,000**	**261,118**	**170,605**	**58,483**	**98,459**	**768,665**
Net carrying amount						
At 1 January 2017	**1,350,000**	**105,538**	**82,925**	**55,463**	**33,410**	**1,627,336**
At 31 December 2017	**1,290,000**	**120,871**	**84,363**	**40,790**	**67,721**	**1,603,745**
At 31 December 2018	**1,230,000**	**138,407**	**82,565**	**52,340**	**77,862**	**1,581,174**

The valuation of the building (556 sq.m. office space on 3 Vazha-Pshavela ave., Tbilisi) was performed on 1 August 2014 by independent valuator Valuation Company ACD Ltd in accordance with International Valuation Standards (IVS) using market approach.

If the building was stated on a historical cost basis, the amounts would have been as follows:

	2018	**2017**
Cost	1,519,877	1,519,877
Accumulated depreciation	(428,766)	(367,971)

Net book value	**1,091,111**	**1,151,906**

The building is pledged as security for the loan from Procredit Bank JSC (Note 23).

Depreciation has been charged entirely to general and administrative expenses.

15. INTANGIBLE ASSETS

	Licenses	Computer software	Other	Total
Cost				
At 1 January 2017	**31,019**	**138,608**	**1,900**	**171,527**
Additions	0	119,528	-	119,528
At 31 December 2017	**31,019**	**258,136**	**1,900**	**291,055**
Additions	18,763	130,112	-	148,875
At 31 December 2018	**49,782**	**388,248**	**1,900**	**439,930**
Accumulated depreciation				
At 1 January 2017	**3,137**	**60,489**	**428**	**64,054**
Depreciation for the period	4,653	29,756	285	34,694
At 31 December 2017	**7,790**	**90,245**	**713**	**98,748**
Depreciation for the period	6,060	48,479	285	54,824
At 31 December 2018	**13,850**	**138,724**	**998**	**153,572**
Net carrying amount				
At 1 January 2017	**27,882**	**78,119**	**1,472**	**107,473**
At 31 December 2017	**23,229**	**167,891**	**1,187**	**192,307**
At 31 December 2018	**35,932**	**249,524**	**902**	**286,358**

Amortisation has been charged entirely to general and administrative expenses.

16. INVESTMENT PROPERTY

	2018	2017	2016
Land plots	602,300	602,300	934,465
Apartments under construction	160,500	160,500	242,427
Apartment	203,500	203,500	203,500
Accumulated depreciation of apartment	(30,525)	(20,350)	(10,175)
	935,775	**945,950**	**1,370,217**

Land plots are located in Tbilisi (4,010 sq.m.) and Tetritskaro (50,382 sq.m.). Other property consist of three apartments in Tbilisi and Batumi, two of them are under construction.

The property of GEL 287,000 is temporarily sequestered by the court.

The fair value of the investment property is not reliably measurable on a continuing basis. The market for comparable properties is inactive and alternative reliable measurements of fair value are not available.

Depreciation has been charged entirely to general and administrative expenses.

17. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

	2018	2017
Unearned premium provision (UPR)	15,713,634	13,609,582
Provisions for claims reported by policyholders (RBNS)	10,099,176	9,302,891
Provisions for claims incurred but not reported (IBNR)	1,356,753	978,614
Liabilities from insurance contracts	**27,169,563**	**23,891,087**

Reinsurers' share in the liabilities from insurance contracts were as follows:

	2018	2017
Reinsurers' share in UPR	1,279,368	1,554,168
Reinsurers' share in RBNS	6,299,213	5,718,067
Reinsurers' share in IBNR	183,524	188,133
Reinsurance assets	**7,762,105**	**7,460,368**

Liabilities from insurance contracts net of reinsurance were as follows:

	2018	2017
Unearned premium provision (UPR)	14,347,729	12,055,414
Provisions for claims reported by policyholders (RBNS)	3,799,963	3,584,824
Provisions for claims incurred but not reported (IBNR)	1,173,229	790,481
Net liabilities from insurance contracts	**19,320,921**	**16,430,719**

a) Analyses of movement in UPR, gross of reinsurance:

	2018	2017
Balance at 1 January	**13,609,582**	**11,923,523**
Gross written premium	37,599,700	31,383,359
Correction of prior periods	86,537	-
Gross earned premium	(35,582,185)	(29,697,300)
Balance at 31 December	**15,713,634**	**13,609,582**

b) Analyses of movement in UPR, reinsurer's share:

	2018	2017
Balance at 1 January	**1,554,168**	**1,644,254**
Reinsurer's share of gross written premium	3,692,931	3,762,651
Gross reinsurer's earned premium	(3,967,731)	(3,852,737)
Balance at 31 December	**1,279,368**	**1,554,168**

c) Analyses of movement in UPR, net of reinsurance:

	2018	2017
Balance at 1 January	**12,055,414**	**10,279,269**

Net written premium	33,906,769	27,620,708
Net earned premium	(31,614,454)	(25,844,563)
Balance at 31 December	**14,347,729**	**12,055,414**

d) Analyses of movement in claims provisions, gross of reinsurance:

	2018	2017
Balance of incurred but not reported at 1 January	978,614	920,921
Balance of reported but not settled claims at 1 January	9,302,891	12,428,794
Total provisions for claims at 1 January	**10,281,505**	**13,349,715**
Payments in respect of prior year claims	(2,573,030)	(4,476,795)
Change in estimates in respect of prior year claims	(1,109,131)	(533,377)
Expected cost of current year claims	23,821,506	18,184,754
Payments in respect of current year claims	(18,964,921)	(16,242,792)
Total provisions for claims at 31 December	**11,455,929**	**10,281,505**
Balance of incurred but not reported at 31 December	1,356,753	978,614
Balance of reported but not settled claims at 31 December	10,099,176	9,302,891

e) Analyses of movement in claims provisions, reinsurer's share:

	2018	2017, restated
Balance of incurred but not reported at 1 January	188,133	227,070
Balance of reported but not settled claims at 1 January	5,718,067	8,765,920
Total provisions for claims at 1 January	**5,906,200**	**8,992,990**
Payments in respect of prior year claims	(446,950)	(1,866,040)
Change in estimates in respect of prior year claims	(125,370)	(1,344,386)
Expected cost of current year claims	1,734,607	869,334
Payments in respect of current year claims	(585,750)	(745,698)
Total provisions for claims at 31 December	**6,482,737**	**5,906,200**
Balance of incurred but not reported at 31 December	183,524	188,133
Balance of reported but not settled claims at 31 December	6,299,213	5,718,067

f) Analyses of movement in claims provisions, net of reinsurance:

	2018	2017, restated
Balance of incurred but not reported at 1 January	790,481	693,851
Balance of reported but not settled claims at 1 January	3,584,824	3,662,874
Total provisions for claims at 1 January	**4,375,305**	**4,356,725**
Payments in respect of prior year claims	(2,126,080)	(2,610,755)
Change in estimates in respect of prior year claims	(983,761)	811,009
Expected cost of current year claims	22,086,899	17,315,420
Payments in respect of current year claims	(18,379,171)	(15,497,094)
Total provisions for claims at 31 December	**4,973,192**	**4,375,305**
Balance of incurred but not reported at 31 December	1,173,229	790,481
Balance of reported but not settled claims at 31 December	3,799,963	3,584,824

18. OTHER ASSETS

	2018	2017
82Loans issued	2,780,444	3,214,506
Allowance for impairment losses	(77,396)	(211,818)
Net loans issued	**2,703,048**	**3,002,688**
Advances paid	73,213	17,220
Inventory	49,326	104,914
Prepayments to employees	41,356	42,474
Other receivables	26,386	26,600
OTHER ASSETS	**2,893,329**	**3,193,896**

There is no material difference between the fair value of financial assets included in other assets and their carrying amount.

Loan issued is expired 1,243,289 GEL (1,211,105 GEL as of 31.12.2017), but the company has not created reserve, because the loans are collateralized and fair value of pledged assets covers to the requirement of loans issued.

Allowance for impairment losses is decreased as a result of collateralizing the loans in 2018 and 2017:

	2018	2017
Collateralized short-term loans	2,780,444	2,573,211
Other short-term loans	-	563,271
Long-term loans	-	78,024
Loans issued	**2,780,444**	**3,214,506**

The table below analyses changes in the allowance for impairment of loans issued in the period:

	2018	2017
At 1 January	211,818	701,583
Charge for the year	(134,422)	(489,765)
At 31 December	**77,396**	**211,818**

Provisions, write-offs and utilisation of the allowance for impairment losses are presented in the consolidated statement of profit or loss within impairment and write off expense (Note 12).

19. INSURANCE AND REINSURANCE RECEIVABLES

	2018	2017, restated
Insurance premium receivable	19,474,223	19,637,261
Allowance for impairment losses	(2,707,847)	(2,602,113)
Net insurance premium receivable	**16,766,376**	**17,035,148**
Reinsurance receivable	4,561,883	5,592,111
Subrogation receivable net of impairment losses (Note 8)	7,803,937	7,675,386
Insurance receivables	**29,132,196**	**30,302,645**

The carrying amounts disclosed above reasonably approximate their fair values at year end.

Analysis of credit risk is provided in Note 25.

The table below analyses changes in the allowance for impairment losses in the period:

	2018	2017, restated
At 1 January	2,602,113	1,869,518
Charge for the year	105,734	732,595
At 31 December	2,707,847	2,602,113

Provisions, write-offs and utilisation of the allowance for impairment losses are presented in the consolidated statement of profit or loss within impairment and write off expense (Note 12).

20. CASH AND CASH EQUIVALENTS, AMOUNTS DUE FROM CREDIT INSTITUTIONS

	2018	2017
Cash on current accounts with banks	1,702,245	1,344,017
Cash on hand	103,751	89,780
Cash and cash equivalents	**1,805,996**	**1,433,797**
Short-term deposits	5,361,920	2,839,540
Accrued interest	63,211	57,248
Amounts due from credit institutions	**5,425,131**	**2,896,788**

There is no material difference between the carrying amount and the fair value of the Group's cash and cash equivalents, amount due from credit institutions.

Deposits include restricted cash placed on bank accounts to conform to the requirement of regulatory legislation (Note 25, paragraph of Capital Management).

Amounts due from credit institutions are represented for the year ended 2018 as follows:

JSC Bazis Bank on the dollar deposit is 802,980 equivalent in GEL and earn annual interest 4%. Interest is accrued daily bases.

JSC TBC Bank deposit in the national currency is GEL 750,000, which earn annual interest 8% and 10%. Benefits are deducted at the end of the term, the interest is accrued at the end of the period.

JSC Procredit Bank deposit in the USD currency is GEL 1,338,300, which earn annual interest 2.5% and 4%. The interest is accrued monthly bases.

JSC Tera Bank on national currency in GEL 835,320, which includes an amount of GEL 535,320, to the deposit in USD, earn annual interest 4,5% and to the amount of GEL 300,000 in national currency earn annual interest 10.25%. The interest is accrued daily bases.

JSC Finka Bank on national currency in GEL 1,635,320, which includes an amount of GEL 535,320, to the deposit in USD, earn annual interest 3.25% and to the amount of GEL 1,100,000 in national currency earn annual interest 12%. The interest is accrued daily bases.

Interest income generated during the period equals to GEL 209,227. Interest received during the period on deposits replaced in USD is equal to GEL 55,615 and interest received on deposits replaced in national currency is 147,739 GEL (2017: USD in equivalent GEL 54,598; GEL 90,468).

21. SHARE CAPITAL

From the Company's authorized share capital of GEL 5,000,000 (475,000 ordinary and 25,000 preference shares with a nominal value of GEL 10 each), GEL 2,600,000 is fully paid. Shareholders are presented in Note 1. 25,000 ordinary shares were converted into preference shares based on shareholders' decision made on 25 April 2018. Fixed dividends in amount of USD 2.88 per share will be paid on preference shares starting from 2019.

For the requirements of regulatory legislation regarding capital refer to Note 25, paragraph of Capital Management.

22. OTHER INSURANCE LIABILITIES

	2018	**2017, restated**
Reinsurance premium payable	2,945,782	6,280,940
Reinsurers' share in subrogation receivable (Note 8)	6,548,006	6,612,374
Insurance agents' commission payable	1,914,301	2,322,085
Advances received (deposits to secure suretyships)	15,839	15,839
Other insurance liabilities	**11,423,928**	**15,231,238**

23. BORROWINGS

	2018	**2017**
Gazelle Finance Georgia LLC	1,607,363	-
Procredit Bank JSC	833,623	996,204
Ardi Capital Ltd	7,808	205,979
Samsheneblo Investments Ltd	-	70,192
Borrowings	**2,448,794**	**1,272,375**

The borrowings are secured by the Company's property and its shares.

Interest of the loan from Gazelle Finance Georgia LLC consists of (a) fixed interest rate of 6.2% and (b) 0.35% of net written premiums. Budgeted IRR of the loan is 16.6%. The loan maturity date is May 2, 2022. According to the agreement signed by parties, on the payment of loan principle exist grace period and starts after 2020 year, principle should be paid according to the schedule. Interest is paid monthly bases.

Procredit Bank JSC bank loan is denominated in USD with 8.5% interest rate and principal maturity date for 2020 year. Loan interest is paid monthly bases. Loan principal is 267,660 GEL as of 31 December, 2018.

Procredit Bank JSC bank credit line is denominated in national currency with 12.5% interest rate. Interest and principal is paid monthly bases according to the schedule.

There is no material difference between the carrying amount and the fair value of the Group's borrowings.

Additional information on borrowings is disclosed in Note 25.2, paragraphs of Liquidity and Currency Risks.

24. TRADE AND OTHER PAYABLES

	2018	**2017**
Accounts payable	346,341	590,734
Taxes payable	360,941	399,086
Accruals for employee compensation	379,342	465,564
Other payables	99,421	102,729
Trade and other payables	**1,186,045**	**1,558,113**

The carrying amount of liabilities is in line with their fair value at the reporting date.

25. 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 is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls. Everyone within the Group is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent in the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Group's risk management policies in relation to those risks follows.

Governance framework

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

The Group has established a risk management function with terms of reference for the executive management board. Management board delegates to respective members of senior management responsibilities for overseeing compliance with established risk management policies.

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

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 shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to funds available from financial institutions.
- 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 regulatory 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.

The Group has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

Capital Management

The insurance sector in Georgia is regulated by the Insurance State Supervision Service of Georgia ("ISSSG"). The ISSSG imposes minimum capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins.

According to the ISSSG directive №27, issued on 25 December 2017, the minimum capital throughout the period should be not less than GEL 2,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances. The minimum capital requirement is GEL 4,200 thousand for the period from 31 December 2018 to 31 December 2020 and GEL 7,200 thousand thereafter.

The Company was in compliance with the capital requirements of ISSSG as at 31 December 2018.

25.1. 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 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 across the board 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 principally issues the following types of general insurance contracts: Property, Marine Transport Means (Hull), Cargo, Third Party Liability, 'Marine Third Party Liability, Surety ships, Travel, Road Transport Means, Personal Accident, Motor Third Party Liability, Financial Risks, Medical (Health). Risks under these policies usually cover twelve-month duration.

For general 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 of the risk insured by the Group, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

Insurance risk management

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 further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact 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 in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

Even though the Group currently does not use direct analysis in creating insurance claims provision and creates insurance provision according to Georgian legislation, which precisely defines what type of reserve should be made and in what quantity, claims provision is adequate to generated claims.

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 IBNR and a reserve for reported claims not yet settled.

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.

At the end of each reporting period the Group assess whether its recognized insurance liabilities are adequate: the Group determines whether the amount of recognized insurance liabilities is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. If it is less, the insurer will recognize the entire difference in profit or loss and increase the carrying amount of the relevant insurance liabilities.

25.2. Financial risks

In performing its operating, investing and financing activities, the Group is exposed to the following financial risks:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Group.
- Liquidity risk: the risk that the Group may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. Basically, the Group is exposed only to currency risk from market risk components.

In order to effectively manage those risks, the major guidelines used by the Group are the following:

- Minimise interest rate, currency and price risks for all kinds of transactions
- Maximise the use of "natural hedge" favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency. The same strategy is pursued with regard to interest rate risk
- All financial risk management activities are carried out on a prudent and consistent basis and following the best market practices.

The following table summarises the carrying amount of financial assets and financial liabilities recorded by category.

FINANCIAL ASSETS	**2018**	**2017, restated**
Cash and cash equivalents	1,805,996	1,433,797
Amounts due from credit institutions	5,425,131	2,896,788
Net insurance premium receivable (Note 19)	16,766,376	17,035,148
Reinsurance receivable	4,561,883	5,592,111
Net subrogation receivable (Notes 19 and 22)	1,255,931	1,063,012
Net loans issued (Note 18)	2,703,048	3,002,688
BALANCE AT 31 DECEMBER	**32,518,365**	**31,023,544**

FINANCIAL LIABILITIES	**2018**	**2017, restated**
Net insurance claims (net RBNS and IBNR, Note 17)	4,973,192	4,375,305
Other insurance liabilities (Note 22)	4,875,922	8,618,864
Borrowings	2,448,794	1,272,375
Trade and other payables	1,186,045	1,558,113
Current income tax	475,833	426,606
BALANCE AT 31 DECEMBER	**13,959,786**	**16,251,263**

Credit risk

The Group controls its exposure to credit risk by dealing only with creditworthy counterparties. There are no significant concentrations of credit risk.

The maximum credit risk to which the Group is exposed is summarised in the following table.

	2018	**2017, restated**
Due from banks (Note 20)	7,127,376	4,240,805
Net past due insurance premium receivable (Note 19)	5,367,673	7,429,305
Reinsurance receivable	4,561,883	5,592,111
Net subrogation receivable (Notes 19 and 22)	1,255,931	1,063,012
Net loans issued (Note 18)	2,703,048	3,002,688
BALANCE AT 31 DECEMBER	**21,015,911**	**21,327,921**

Aging analysis of past due insurance premium receivable:

Less than 31	1,461,412	1,244,190
Between 31-90	1,334,902	1,131,840
Between 91-180	409,121	1,084,065
Between 181-365	1,341,278	1,427,738
More than 365	3,528,807	5,143,585
Allowance for impairment losses	(2,707,847)	(2,602,113)
BALANCE AT 31 DECEMBER	**5,367,673**	**7,429,305**

Liquidity risk - Financial liabilities' maturity analysis

The Group manages liquidity risk on the basis of expected maturity dates.

The following tables analyse financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

	Less than 1 year	1 year to 5 year	Over 5 years	Total
Net insurance claims (net RBNS and IBNR, Note 17)	4,973,192	-	-	4,973,192
Other insurance liabilities (Note 22)	4,875,922	-	-	4,875,922
Borrowings	829,380	1,619,414	-	2,448,794
Trade and other payables	1,186,045	-	-	1,186,045
Current income tax	475,833	-	-	475,833
BALANCE AT 31 DECEMBER 2018	**12,340,372**	**1,619,414**	**-**	**13,959,786**
Net insurance claims (net RBNS and IBNR, Note 17)	4,375,305	-	-	4,375,305
Other insurance liabilities (Note 22)	8,618,864	-	-	8,618,864
Borrowings	797,564	474,811	-	1,272,375
Trade and other payables	1,558,113	-	-	1,558,113
Current income tax	426,606	-	-	426,606
BALANCE AT 31 DECEMBER 2017, restated	**15,776,452**	**474,811**	**-**	**16,251,263**

At present, the Group expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments, the Group expects the operating activity to generate sufficient cash inflows.

Guarantee contracts are appropriately secured.

Foreign currency risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The Group does not have any formal procedures on managing currency risk, however, management consider themselves to be well informed on the tendencies in the economy and has undertaken steps to minimise its currency risks.

Financial assets by currency

Financial assets as at 31 December are analysed by currency as follows:

	GEL	USD	EUR	Total
Cash and cash equivalents	1,768,063	37,612	321	1,805,996
Amounts due from credit institutions	2,230,148	3,194,983	-	5,425,131
Past due insurance premium receivable	3,969,250	4,028,489	77,781	8,075,520
BALANCE AT 31 DECEMBER 2018	**7,967,461**	**7,261,084**	**78,102**	**15,306,647**
Cash and cash equivalents	1,419,294	12,412	2,091	1,433,797
Amounts due from credit institutions	1,065,848	1,830,940	-	2,896,788
Past due insurance premium receivable	4,752,560	5,143,869	134,989	10,031,418
BALANCE AT 31 DECEMBER 2017	**7,237,702**	**6,987,221**	**137,080**	**14,362,003**

Financial liabilities by currency

The following table analyses the breakdown of liabilities by currency.

	GEL	USD	EUR	Total
Borrowings	732,962	1,715,832	-	2,448,794
BALANCE AT 31 DECEMBER 2017	**732,962**	**1,715,832**	**-**	**2,448,794**
Borrowings	583,363	689,012	-	1,272,375
BALANCE AT 31 DECEMBER 2016	**583,363**	**689,012**	**-**	**1,272,375**

Sensitivity analysis

A 10% increase / decrease in the exchange rate of GEL/USD would increase / cut profits after tax by GEL 471,346 (2017: GEL 535,348).

A 10% increase / decrease in the exchange rate of GEL/EUR would increase / cut profits by GEL 6,639 (2017: GEL 11,652).

26. RELATED PARTY TRANSACTIONS

Only material transactions with related parties were loans issued (Other assets, Note 18) and corresponding interest income (Note 5).

Compensation of key management personnel was as follows:

	2018	2017
Key management salary	1,527,662	1,050,595

27. LITIGATIONS

According to the decision of Tbilisi City Court the Company should pay compensation to the plaintiffs – Microsoft Corporation, due to copyright infringement amounted USD 217,076.

In response to the decision of Tbilisi City Court the management has appealed the court claiming on April 5, 2018 at Tbilisi court of appeals. Date of the trial has not been announced by the date of authorisation of the financial statements.

28. EVENTS AFTER REPORTING DATE

These consolidated financial statements were authorised for issue by the management on 10 April 2019. There have been no subsequent events that need to be disclosed in the financial statements.