JSC INSURANCE COMPANY CARTU

Consolidated and Separate Financial Statements and

Independent Auditor's Report

Year ended 31 December 2018

Contents:

INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC INSURANCE COMPANY CARTU

Opinion

We have audited the Consolidated and Separate Financial Statements of **JSC INSURANCE COMPANY CARTU**, (hereinafter - the Company) and subsidiary (hereinafter – the Group) which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statements of comprehensive income, consolidated and separate changes in equity and consolidated and separate cash flows for the year then ended, and notes to the Consolidated and Separate financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated and Separate financial Statements present fairly, in all material respects, the consolidated and separate financial position of the Company as at 31 December 2018, and its consolidated and separate financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Consolidated and Separate financial Statements in Georgia.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate financial Statements

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

In preparing the Consolidated and Separate financial Statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate 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 and Separate financial Statements.

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

- Identify and assess the risks of material misstatement of the Consolidated and Separate financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the Consolidated and Separate financial Statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

Ivane Zhuzhunashvili (SARAS-A-720718)

For and on behalf of BDO LLC

Tbilisi, Georgia

11 April 2019

JSC INSURANCE COMPANY CARTU AND SUBSIDIARY

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In GEL)

	Notes	2018	2017
Gross written premiums on insurance contracts		5,914,680	3,610,708
Reinsurer's share of gross written premium on insurance contracts		(3,118,677)	(855,005)
Net written premium		**2,796,003**	**2,755,703**
Changes in provision for unearned premiums		(1,020,530)	1,309,451
Changes in the re-insurers portion in provision for unearned premiums		1,399,379	(166,512)
Net insurance revenue	5	**3,174,852**	**3,898,642**
Commission income	6	345,162	394,664
Total revenue		**3,520,014**	**4,293,306**
Insurance claims and loss adjustment expenses	7	(6,123,073)	(4,202,904)
other insurance income	8	21,439	334,781
Reinsurer's share in insurance claims		4,088,075	195,520
Changes in IBNR		(1,083)	46,580
Changes in RBNS		254,093	1,111,765
Re changes in Reserves		(128,647)	(4,121)
Net insurance claims		**(1,889,196)**	**(2,518,379)**
Distribution expenses		(10,149)	(10,051)
Administration expenses	10	(1,243,158)	(1,266,182)
Acquisition costs		(16,945)	(17,702)
Impairment expenses	9	(94,264)	(509,441)
Other expenses	11	(240,247)	(26,620)
Operational expenses		**(3,493,959)**	**(4,348,375)**
Results from operating activities		**26,055**	**(55,069)**
Financial income		278,746	242,581
Exchange rate difference gain/(loss), net		48,455	(76,581)
Profit before tax		**353,256**	**110,931**
Income tax expense	12	-	(185,679)
Profit/ (loss) for the year		**353,256**	**(74,748)**

These Consolidated and Separate financial Statements were approved by management on 11 April 2019 and were signed on its behalf by:

General director A. Mamatsashvili

Head of financial department Z. Stambolishvili

Notes on pages 9-35 are the integral part of these Consolidated and Separate financial Statements.

CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In GEL)

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CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In GEL)

	Note	31.12.2018	31.12.2017
Assets			
Property and Equipment and intangible assets	13	60,469	114,287
Reinsurance assets	14	2,108,013	837,281
insurance and reinsurance receivables	15	2,861,740	3,363,492
Other assets	16	179,328	196,605
Amounts due from credit institutions	17	5,491,619	3,170,137
Cash and cash equivalents	18	640,463	512,327
Total assets		**11,341,632**	**8,194,129**
Equity			
Share Capital	19	9,620,300	7,620,300
Accumulated loss		(4,615,860)	(4,969,116)
Total equity		**5,004,440**	**2,651,184**
Liabilities			
Insurance contract liabilities	14	3,648,267	2,880,747
Other insurance liabilities	20	2,515,883	2,353,618
Differed commission income	21	68,175	202,555
Other liabilities	22	104,867	106,025
Total liabilities		**6,337,192**	**5,542,945**
Total equity and liabilities		**11,341,632**	**8,194,129**

Notes on pages 9-35 are the integral part of these Consolidated and Separate financial Statements.

CONSOLIDATED AND SEPARATE STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2018

(In GEL)

	Share capital	Accumulated loss	Total
31.12.2016	**7,170,300**	**(4,894,368)**	**2,275,932**
Issue of share capital	450,000	-	**450,000**
Loss for the year	-	(74,748)	**(74,748)**
31.12.2017	**7,620,300**	**(4,969,116)**	**2,651,184**
Issue of share capital	2,000,000	-	**2,000,000**
Profit for the year	-	353,256	**353,256**
31.12.2018	**9,620,300**	**(4,615,860)**	**5,004,440**

Notes on pages 9-35 are the integral part of these Consolidated and Separate financial Statements.

CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In GEL)

	Notes	2018	2017
Cash flows from operating activities			
Profit for before tax		353,256	110,931
Adjustments for:			
Depreciation and amortization of fixed and intangible assets	13	53,858	56,749
Changes in unearned premium reserves		1,020,530	(1,309,451)
Change of reinsurer's share in unearned premium reserves		(1,399,379)	166,512
Changes in IBNR		1,083	(46,580)
Changes in RBNS		(254,093)	(1,111,765)
Changes in insurance claims reserves reinsurer's share		128,647	4,121
Loss from disposal of fixed assets		104	-
Changes in deferred commission income	21	(134,380)	(3,501)
Impairment expenses	9	94,264	509,441
Interest income from deposits		(278,746)	(242,581)
Loss from exchange rate difference		(48,455)	76,581
Cash flows used in operating activities before changes in working capital		**(463,311)**	**(1,789,543)**
Decrease in insurance and reinsurance receivables		408,786	2,276,490
Increase/ (Decrease) in other insurance liabilities		231,405	(1,896,159)
Decrease /(Increase) in other current assets		17,277	(104,958)
Decrease in other liabilities		(704)	(114,825)
Cash generated from / (used in) operations		**193,453**	**(1,628,995)**
Decrease/ (Increase) in amounts due from credit institutions		(2,321,482)	657,838
Interest received from deposits		278,746	254,944
Net cash flows used in operating activities		**(1,849,283)**	**(716,213)**
Investing activities			
Purchase of fixed and intangible assets		(599)	(3,123)
Net cash used in investing activities		**(599)**	**(3,123)**
Financing activities			
Owners contribution	19	2,000,000	450,000
Net cash from financing activities		**2,000,000**	**450,000**
Net Increase/(decrease) in cash and cash equivalents		**150,118**	**(269,336)**
Cash and cash equivalents at the beginning of year	**18**	**512,327**	**754,693**
Effect of changes in foreign exchange rate on cash and cash equivalents		(21,982)	26,970
Cash and cash equivalents at the end of year	**18**	**640,463**	**512,327**

Notes on pages 9-35 are the integral part of these Consolidated and Separate financial Statements.

1. General information

JSC Insurance Company Cartu (later – the Company) was registered in 2001. The company is headquartered in Tbilisi, Chavchavadze avenue N. 39a.

The company owns 2 types of licenses for life and non-life insurance, issued by the National Insurance State Supervision Service of Georgia.

JSC Insurance Company Cartu and its subsidiary (later – group) were founded in accordance with Georgian law.

As at 31st of December 2018 and 2017, the company has one subsidiary – LLC "Reestri XXI", (identification number N. 204975438), which was registered in 2001. The company owns 100% of statutory capital of LLC "Reestri XXI". As at 31st of December 2018 and 2017, the subsidiary is not operating, therefore presented consolidated and separate financial statements of the Company, as at 31st of December 2018 and 2017 are not different from each other.

As at 31st December 2017, 10.87% of company's share capital is owned by LLC "Ringold Finance Limited", and 89.13% is owned by JSC "Cartu Bank", of which, the ultimate shareholder is Uta Ivanishvili, with 100% of the shares.

As at 31st December 2018, 8.61% of company's share capital is owned by LLC "Ringold Finance Limited", and 91.39% is owned by JSC "Cartu Bank", of which, the ultimate shareholder is Uta Ivanishvili, with 100% of the shares.

2. Basis of preparation

The principal accounting policies applied in the preparation of these Consolidated and Separate financial Statements are set out in Note 3.

2.1 Basis of measurement

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB).

The Consolidated and Separate financial Statements have been prepared under the historical cost bases. The reporting period for the Group is the calendar year from January 1 to December 31.

The preparation of Consolidated and Separate financial Statements in compliance with IFRS requires the use of certain critical accounting estimates, that effects on the carrying amounts of assets and liabilities, as well as income and expenses recognized during the accounting period. It also requires from management to exercise judgment in the most appropriate application in applying the accounting policies. Actual results may be different from currently made estimates. Adjustments that result changes in accounting estimates are recognized in the accounting period that they relate to. The areas where significant judgments and estimates have been made in preparing the Consolidated and Separate financial Statements and their effect are disclosed in Note 4.

As consolidated and separate financial statements for the years ended 31 December 2018 and 2017 are identical, management decided to present them together as one package of financial Statements.

2. Basis of preparation (Continued)

2.2 Basis for consolidation

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

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

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above

When the Company has less than majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. A parent presents non-controlling interests in its consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

JSC Insurance Company Cartu and its subsidiary "Reestri XXI" use the same accounting policies, that are in accordance with the Group policies.

2.3 Going Concern

These Consolidated and separate financial statements have been prepared on the assumption that the Group is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in Georgia. The management believes that the going concern assumption is appropriate for the Group.

2.4 Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2018

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

IFRS 15 Revenue from Contracts with Customers. In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

2. Basis of preparation (Continued)

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

Application of IFRS 15 had no effect on the consolidated and separate financial statements.

b) New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these Consolidated and Separate financial Statements, will or may influence the Group's future Consolidated and Separate financial Statements:

- IFRS 9 – Financial instruments
- IFRS 16 - Leases
- IFRS 17 – Insurance contracts

IFRS 9 - Financial Instruments. On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduced new requirements for classifying and measuring financial assets that had to be applied starting 1 January 2013, with early adoption permitted.

On 28 October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities.

On 16 December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which amended the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and modified the relief from restating comparative periods and the associated disclosures in IFRS 7.

On 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) amending IFRS 9 to include the new general hedge accounting model, allow early adoption of the treatment of fair value changes due to own credit on liabilities designated at fair value through profit or loss and remove the 1 January 2015 effective date.

On 24 July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions.

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

2. Basis of preparation (Continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stages' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Standard is effective from 01 January 2018. An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. Deferral approach. Under the amendments that make up the deferral approach, an entity applies IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1 January 2021. The Group is currently assessing the possible impact of IFRS 9 on its consolidated and separate financial statements.

IFRS 16 Leases. In January 2016 the IASB issued IFRS 16. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. This means that a lessor continues to classify leases as operating or finance. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short term leases (i.e. those with a term of 12 months or less) and leases of low value items.

As a result, a key question changes from whether a lease is an operating or a finance lease under current guidance, to whether an arrangement gives rise to something that meets the definition of a lease. The scope of IFRS 16 is wide, and some arrangements involving the use of assets that might be viewed as service contracts (which are executory and not recorded in the statement of financial position) may in fact result in a lease within the scope of IFRS 16. Significant changes to systems and processes may be required in order to comply with the new requirements.

2. Basis of preparation (Continued)

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. an entity is permitted to apply IFRS 16 before 1 January 2019 if it has previously applied IFRS 15 – Revenue from contracts with customers.

The Group is currently assessing the possible impact of the new standard on its financial statements.

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

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).

A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period).

- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of comprehensive income, but are recognised directly on the balance sheet.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group is currently assessing the impact.

3. Significant accounting policies

Principal accounting policies applied in the preparation of these Consolidated and Separate financial Statements are set out below.

3.1 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within “Exchange rate gain, net”.

At 31 December 2018 and 2017 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	**EUR**
Exchange rate as at 31.12.2018	2.6766	3.0701
Exchange rate as at 31.12.2017	2.5922	3.1044

3.2 Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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

3.3 Property and equipment

The Group is accounting Property and Equipment according to IAS 16 – “Property, Plant and Equipment” requirements.

Items of property and equipment are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

3. Summary of significant accounting policies (continued)

Property and equipment are carried at historical cost less accumulated depreciation and recognized impairment loss, if any. Depreciation on all classes of property and equipment is calculated on a straight-line basis to allocate their cost over the following estimated useful lives:

Class	Useful life (Year)
Vehicels	5-10
Office equipment	5-7
Furniture and fixture	5-7
Other	5

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The difference is recognized in comprehensive income as other income/expense.

3.4 Intangible Assets

Accounting Software

Intangible assets are measured on initial recognition at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Amortization is calculated using the straight-line method to allocate assets' cost or cost after impairment amounts to their residual values over their estimated useful lives. Useful life of the intangible asset of the Group is 10 Years.

3.5 Deferred policy acquisition costs (DAC)

Deferred acquisition costs are commission and other acquisition costs related to agents and brokerage companies for selling the insurance contracts. Deferred acquisition costs are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts with the straight line basis.

3.6 Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets (Note 3.8).

3. Summary of significant accounting policies (continued)

3.7 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are comprised with receivables and payables as amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets.

(i) Salvage and subrogation reimbursements

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

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

3.8 Financial instruments

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

The Group's accounting policy for each category is as follows:

(a) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and loans granted, but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the trade receivable and loan granted will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise insurance and reinsurance receivables, amount due from credit institutions and cash and cash equivalents accounts.

Cash and cash equivalents include cash on current accounts and cash on hand.

3. Summary of significant accounting policies (continued)

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

(a) Those that the entity upon initial recognition designates as at fair value through profit or loss

(b) Those that the entity designates as available for sale; and

(c) Those that meet the definition of loans and receivables.

(c) Fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

(a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

- (i) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- (ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only:

(i) If a contract contains one or more embedded derivatives. In this case an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless:

- The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
- It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost; or

(ii) When doing so results in more relevant information, because either:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

In current period the Group does not have financial assets at fair value through profit or loss.

(d) Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

In current period the Group does not have available-for-sale financial assets.

3. Summary of significant accounting policies (continued)

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

(a) Fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions (see financial assets for detailed information):

(a) It is classified as held for trading

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss.

In current period the Group does not have financial liabilities at fair value through profit or loss.

(b) *Other financial liabilitie*s

Other financial liabilities include other insurance liabilities, received loans and trade payables which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Derecognition of financial assets

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, The Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.9 Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium.

Reserves are established for losses and loss adjustment expenses (LAE) which have occurred but are not yet paid. Reserves for loss and loss adjustment expenses fall into two categories: reserves for reported but not settled insurance claims (RBNS) and reserves for incurred but not reported losses (IBNR). The reserves are recognized as libilities in the statements of financial positions. The liabilities are not discounted for the time value of money.

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

The amount of reserve for reported but not settled insurance claims at the reporting date are the amount of reserved unpaid insurance money under known claims of insurers. The Group forms reserve for reported but not paid claims of insurers at the reporting date confirmed by the relevant statements.

3. Summary of significant accounting policies (continued)

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

Considering the past experience, the reserve for incurred but not reported insurance claims is formed by the Group at the end of reporting date.

Calculation of Reserve for incurred but not reported claims is conducted by statistitians. IBNR is calculated using actuarial method, such as "chain ledder" method using paid/incurred losses (Frequency of claims paid, Quantity of claims etc.) for estimating present and future claims to be reported.

The chain ladder method (CLM) is used by insurers to forecast the amount of reserves that must be established in order to cover future claims.

(iii) Unearned premium reserve

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement.

3.10 Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC and VOBA assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC or VOBA and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

3.11 Current and deferred income tax

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

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

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

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

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

3. Summary of significant accounting policies (continued)

3.12 Financial and operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

4. Critical accounting estimates and judgements

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

Estimates and assumptions

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

The estimation of the ultimate liability arising from claims made under 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 must 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 before the ultimate claims cost can be specified. For some type of policies, IBNR claims form most of the statement of financial position insurance liability.

b) Impairment of insurance and reinsurance receivables

The Group assesses insurance and reinsurance receivables for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and deterioration of debtor's credit rating.

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 joint or individual assessment of future cash flows to be received from financial assets.

c) Taxation

Tax legislation and accounting for provisions. The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the consolidated statement of financial position date. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date. Actual charges could differ from these estimates.

5. Net earned premium

Net earned premium by insurance type can be presented as follows:

2018	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Aviation insurance	2,433,905	(2,391,420)	42,485	(30,563)	11,922
Medical (health) insurance	1,741,047	-	1,741,047	337,659	2,078,706
Compulsory TPL insurance	537,436	-	537,436	(27,676)	509,760
Property insurance	482,340	(412,234)	70,106	35,142	105,248
Vehicle insurance	447,225	(152,887)	294,338	39,440	333,778
Cargo insurance	168,624	(115,328)	53,296	(766)	52,530
TPL/Liability insurance	90,523	(46,608)	43,915	3,250	47,165
Personal accident insurance	5,495	(200)	5,295	7,355	12,650
Life insurance	5,160	-	5,160	15,313	20,473
Travel insurance	2,925	-	2,925	(350)	2,575
Financial loss insurance	-	-	-	45	45
Total	**5,914,680**	**(3,118,677)**	**2,796,003**	**378,849**	**3,174,852**

2017	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Medical (health) insurance	2,230,145	-	2,230,145	434,314	2,664,459
Property insurance	695,363	(532,587)	162,776	346,882	509,658
Vehicle insurance	460,292	(201,777)	258,515	135,009	393,524
Cargo insurance	135,362	(105,890)	29,472	1,338	30,810
Aviation insurance	28,896	-	28,896	95,676	124,572
TPL/Liability insurance	24,603	(14,261)	10,342	115,915	126,257
Personal accident insurance	14,664	(490)	14,174	(2,999)	11,175
Life insurance	13,921	-	13,921	(4,491)	9,430
Travel insurance	6,982	-	6,982	1,357	8,339
Liability insurance/Bonds	480	-	480	4,752	5,232
Carrier liability insurance	-	-	-	2,059	2,059
Financial loss insurance	-	-	-	9,261	9,261
Marine insurance	-	-	-	3,866	3,866
Total	**3,610,708**	**(855,005)**	**2,755,703**	**1,142,939**	**3,898,642**

6. Commission income

Commission income can be presented as follows:

	2018	2017
Current year commission income	210,782	391,163
Deferred commission income from issued policies in the current year (Note 21)	(68,175)	(202,555)
Amortization of prior period policies (see Note 21)	202,555	206,056
Total	**345,162**	**394,664**

7. Insurance claims and changes in reserves for outstanding claims

Insurance claims and changes in reserves for outstanding claims can be presented as follows:

	2018	2017
Insurance claims paid	(6,123,073)	(4,202,904)
Gross Change in outstanding claims	253,010	1,158,345
Insurance claims and loss adjustment expenses	**(5,870,063)**	**(3,044,559)**
Reinsurer's share of insurance claims paid	4,088,075	195,520
Reinsurer's share of change in outstanding claims	(128,648)	(4,121)
Reinsurer's share in insurance claims paid and change in outstanding claims	**3,959,427**	**191,399**
Net Insurance claims	**(1,910,636)**	**(2,853,160)**

8. Other insurance income

Other insurance income can be presented as follows:

	2018	2017
Income from subrogation and recovery	5,675	178,440
Income from salvaged property	2,200	139,975
Other operating income	13,564	16,366
Total	**21,439**	**334,781**

9. Impairment expenses

Impairment expenses can be presented as follows:

	2018	2017
Subrogation and recovery impairment expense	(13,281)	(323,958)
Insurance receivable impairment expense	(80,983)	(123,607)
Insurance receivables written off	-	(61,876)
Total	**(94,264)**	**(509,441)**

10. Administration expenses

Administration expenses can be presented as follows:

	2018	2017
Salary expenses	(868,625)	(891,096)
Lease expenses	(191,785)	(191,437)
Depreciation and amortization	(53,858)	(56,749)
Communication expenses	(37,080)	(37,369)
Bank fees	(4,249)	(9,104)
Business trip expense	(2,203)	(5,264)
Other*	(85,358)	(75,163)
Total	**(1,243,158)**	**(1,266,182)**

(*) – Accrued expenses under the subheading "Other" represent audit fee expenses with the amounts of GEL35,503 and GEL7,000 for the years 2018 and 2017, respectively.

11. Other expenses

Other expenses can be presented as follows:

	2018	2017
Compulsory insurance center	(158,511)	-
Insurance State Supervision Service of Georgia	(59,930)	-
Other	(21,806)	(26,620)
Total	**(240,247)**	**(26,620)**

12. Income tax expense

Income tax expense can be presented as follows:

	2018	2017
Current tax	-	-
Effect of temporary differences	-	(185,679)
Total	**-**	**(185,679)**

Profit before tax	**353,256**	**110,931**
Applicable tax rate	15%	15%
Theoretical income tax	(52,988)	(16,640)
Not recognized temporary differences	(129,955)	(148,088)
Effect of Permanent differences	182,943	(20,951)
Total	**-**	**(185,679)**

Movement in deferred tax asset as at 31 December 2018 and 2017 can be presented as follows:

Effect of temporary differences	**31.12.2017**	**Recognized in profit/loss**	**31.12.2018**
Property and equipment	(659)	4,902	4,243
Intangible assets	(461)	(185)	(646)
Insurance and reinsurance receivables	76,416	32,185	108,601
Tax loss carry forward	851,568	(166,857)	684,711
Tax asset/ (liability)	**926,864**	**(129,955)**	**796,909**
Unrecognized temporary differences			
Property and equipment	-	(4,902)	(4,902)
Insurance and reinsurance receivables	(76,416)	(32,185)	(108,601)
Tax loss carry forward*	(850,448)	167,042	(683,406)
Tax asset/ (lability), net	**-**	**-**	**-**

(*) – Management cannot estimate if the Group will be able to use tax loss carry forward and therefore does not recognize deferred tax asset.

13. Property, equipment and intangible assets

Property, equipment and intangible assets can be presented as follows:

Historical cost	Vehicles	Office equipment	Furniture and fixture	Other Property and equipment	Intangible assets	Total
31 December 2016	**20,797**	**251,609**	**1,411**	**8,104**	**63,414**	**345,335**
Addition	-	3,599	-	-	-	**3,599**
31 December 2017	**20,797**	**255,208**	**1,411**	**8,104**	**63,414**	**348,934**
Addition	-	144	-	-	-	**144**
Disposal	-	(415)	-	-	-	**(415)**
31 December 2018	**20,797**	**254,937**	**1,411**	**8,104**	**63,414**	**348,663**
Accumulated depreciation						
31 December 2016	**-**	**(146,668)**	**(611)**	**(4,416)**	**(26,203)**	**(177,898)**
Depreciation expense	(10,567)	(38,861)	(282)	(1,621)	(5,418)	**(56,749)**
31 December 2017	**(10,567)**	**(185,529)**	**(893)**	**(6,037)**	**(31,621)**	**(234,647)**
Depreciation expense	(10,230)	(35,934)	(282)	(1,994)	(5,418)	**(53,858)**
Disposal	-	311	-	-	-	**311**
31 December 2018	**(20,797)**	**(221,152)**	**(1,175)**	**(8,031)**	**(37,039)**	**(288,194)**
Net book value						
31 December 2017	**10,230**	**69,679**	**518**	**2,067**	**31,793**	**114,287**
31 December 2018	**-**	**33,785**	**236**	**73**	**26,375**	**60,469**

Property and equipment with the historical cost of GEL64,174 and GEL26,011 as at 31 December 2018 and 2017, respectively are fully depreciated but still in use by the Group.

14. Insurance contract liabilities and Reinsurance assets

Insurance contract liabilities and Reinsurance assets can be presented as follows:

	31.12.2018	31.12.2017
Insurance contract liabilities		
Unearned premium provision	2,938,311	1,917,781
Provisions for claims reported by policyholders	654,716	908,809
Provisions for claims incurred but not reported (IBNR)	55,240	54,157
Total	**3,648,267**	**2,880,747**
Reinsurance assets		
Reinsurers' share in unearned premium provision	2,050,422	651,043
Reinsurers' share in provisions for claims reported by policyholders	57,591	186,238
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	-	-
Total	**2,108,013**	**837,281**
Insurance contract liabilities net of reinsurance		
Unearned premium provision	887,889	1,266,738
Provisions for claims reported by policyholders	597,125	722,571
Provisions for claims incurred but not reported (IBNR)	55,240	54,157
Total	**1,540,254**	**2,043,466**

14. Insurance contract liabilities and Reinsurance assets (Continued)

Unearned premium reserve

Changes in unearned premium reserve can be presented as follows:

Provision for unearned premium, gross	**2018**	**2017**
Balance at 1 January	**1,917,781**	**3,227,232**
Gross premium Written	5,914,680	3,610,708
Gross earned premium	(4,894,150)	(4,920,159)
Balance at 31 December	**2,938,311**	**1,917,781**

provision for unearned premium - reinsurer's share:		
Balance at 1 January	**651,043**	**817,555**
Reinsurer's share of gross written premium	3,118,677	855,005
Gross reinsurer's earned premium	(1,719,298)	(1,021,517)
Balance at 31 December	**2,050,422**	**651,043**

provision for unearned premium - (net of reinsurance)		
Balance at 1 January	**1,266,738**	**2,409,677**
Reinsurer's share of gross written premium	2,796,003	2,755,703
Gross reinsurer's earned premium	(3,174,852)	(3,898,642)
Balance at 31 December	**887,889**	**1,266,738**

Insurance contract liabilities and reinsurance assets – terms, assumptions and sensitivities

Insurance contracts

(1) Terms and conditions

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. The provisions are refined consistently as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test we refer to note 2 – Summary of accounting policies, Insurance Contract Liabilities

15. Insurance and reinsurance receivables

Insurance and reinsurance receivables can be presented as follows:

	31.12.2018	31.12.2017
Due from policyholders	2,848,748	2,970,397
Due from reinsurance share in claims	58,760	260,797
Reinsurance commission receivables due from reinsurers	190,362	287,445
	3,097,870	**3,518,639**
Impairment provision	(236,130)	(155,147)
Total	**2,861,740**	**3,363,492**

Book values of insurance and reinsurance receivables do not vary from their fair value.

The Group creates provision for its overdue receivables. Qualitative information about the receivables financial receivables is presented in Note 23.

Movement in the provision for impairment can be presented as follows:

	2018	2017
01 January	**(155,147)**	**(31,540)**
Impairment expenses	(80,983)	(123,607)
31 December	**(236,130)**	**(155,147)**

16. Other assets

Other assets can be presented as follows:

	31.12.2018	31.12.2017
Financial assets		
Receivables from subrogation and recovery	490,542	494,763
Impairment provision	(487,875)	(474,594)
Financial assets after impairment	**2,667**	**20,169**
Non-Financial assets		
Salvaged property	105,533	135,975
Other receivables	71,128	38,995
Tender Guarantee	-	1,466
Total	**179,328**	**196,605**

Qualitative information about the receivables from subrogation is presented in Note 23.

Movement in the provision for impairment can be presented as follows:

	2018	2017
01 January	**(474,594)**	**(150,636)**
Impairment expenses	(13,281)	(323,958)
31 December	**(487,875)**	**(474,594)**

17. Amounts due from credit institutions

Amounts due from credit institutions can be presented as follows:

	31.12.2018	31.12.2017
Deposits in GEL	5,462,000	3,150,000
Interests receivable	29,619	20,137
Total	**5,491,619**	**3,170,137**

Amounts due from credit institutions are represented by placements in Georgian Banks. The Georgian State Insurance Supervisory Agency (GSISA) established minimum level of deposits (minimum reserve) and cash on bank accounts dependent on the estimated insurance claims. Detailed information about liquidity and currency of amounts due from credit institutions are provided in Note 23.

Amounts due from credit institutions present *Not overdue and not impaired* category assets for the Group.

18. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	31.12.2018	31.12.2017
Cash at bank in GEL	581,111	419,672
Restricted amount*	55,000	55,000
Cash at hand	3,020	661
Cash at bank in foreign currencies	1,332	36,994
Total	**640,463**	**512,327**

(*) - Restricted amount represents cash amount for bank guarantee. Additional information about currencies of cash and cash equivalents is disclosed in Note 23.

Cash and cash equivalents present *Not overdue and not impaired* category assets for the Group.

19. Share capital

Share Capital can be presented as follows:

	Authorized shares			
	31.12.2018	31.12.2018	31.12.2017	31.12.2017
_	Number	Amount	Number	Amount
Ordinary share of GEL 1 each	9,620,300	9,620,300	7,620,300	7,620,300

	Issued and fully paid			
	2018	2018	2017	2017
	Number	Amount	Number	Amount
At 1 January	**7,620,300**	**7,620,300**	**7,170,300**	**7,170,300**
Ordinary share issues for cash during the year	2,000,000	2,000,000	450,000	450,000
At 31 December	**9,620,300**	**9,620,300**	**7,620,300**	**7,620,300**

20. Other insurance liabilities

Other insurance liabilities can be presented as follows:

	31.12.2018	31.12.2017
Private Joint-Stock Company BUSIN	805,948	816,154
Marsh Ltd	752,769	547,435
Paraklis Insurance Solutions Ltd (SCOR PERESTRAKHOVANIE LTD)	673,082	945,822
Alpen AIB	238,054	-
Other	46,030	44,207
Total	**2,515,883**	**2,353,618**

Book values of other insurance liabilities do not vary from their fair value.

21. Deferred commission income

Deferred commission income can be presented as follows:

	2018	2017
01 January	**202,555**	206,056
Comicon income differed from current year policies (Note 6)	68,175	202,555
Amortization of deferred commission income (Note 6)	(202,555)	(206,056)
31 December	**68,175**	**202,555**

22. Other liabilities

Other liabilities can be presented as follows:

	31.12.2018	31.12.2017
Financial liabilities		
Trade payables	94,089	91,253
Other payables	1,200	1,200
Non-financial liabilities		
Received advances	9,090	13,572
Taxes payable	488	-
Total	**104,867**	**106,025**

Book values of other liabilities do not vary from their fair values.

23. Risk management

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

23. Risk management (Continued)

23.1 Capital management objectives, policies and approach

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

The capital management objectives are:

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

The operations of the Group are also subject to local regulatory requirements within the jurisdiction where it operates.

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

Insurance State Supervision Service of Georgia (ISSSG) sets minimum capital requirements for local insurance companies.

In accordance with 16th September of 2016 instruction, published by head of ISSSG, insurer's regulatory capital must exceed calculated solvency's 50% from 1st January of 2017 to 1st July of 2017. Insurer's regulatory capital must exceed calculated solvency's 75% from 1st July of 2017 to 1st January of 2018.

In the same way, in accordance with 16th September of 2016 instruction, published by head of ISSSG, insurer's regulatory capital at all stages of insurance activity must exceed minimum required capital defined in 25th December of 2017 №27 instruction published by head of ISSSG as follows:

a) GEL 4,200 for life insurance;
b) GEL 3,400 for other non-life insurance, - Except for Compulsory TPL, Liability insurance and credit liability insurance;
c) GEL 4,200 for mandatory third-party liability insurance, surety bonds and credit liability insurance; and
d) GEL 4,200 for reinsurance;

The Company complied with ISSSG requirements as at 31 December 2018 and 2017.

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.

23. Risk management (Continued)

23.2 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 Company 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 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 Company establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

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

	2018	2017
Loss Ratio	60%	65%

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company 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 Company. The Company 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.

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 claim’s exposures. However, given the uncertainty in establishing claims reserve, it is likely that the outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR.

The estimation of IBNR is generally subject to more uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

The Group has prudential estimation of outstanding insurance liabilities. 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.

23. Risk management (Continued)

23.3 Financial Risk

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

- Credit risk
- Liquidity risk
- Market risk
  - *Currency risk*
  - *Interest rate risk*

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

	31.12.2018	31.12.2017
Insurance and reinsurance receivables	2,861,740	3,363,492
Amount due from credit institutions	5,491,619	3,170,137
Cash and cash equivalents	640,463	512,327
Total financial assets	8,993,822	7,045,956
Other insurance liabilities	2,515,883	2,353,618
Other liabilities	95,289	92,453
Total financial liabilities	2,611,172	2,446,071

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group's Management has established a credit policy under which each customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

In monitoring customer credit risk, customers are grouped according to their overdue status, including whether they are an individual or legal entity, geographic location, industry, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the management, and future sales are made necessary on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on ageing analysis and overdue status for each customer individually.

23. Risk management (Continued)

Reinsurance

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

Aging of trade receivables

The aging of insurance receivables as at 31 December 2018 and 2017 is as follows:

	31.12.2018	31.12.2017
Not past due	2,823,312	2,578,853
Past due 0-3 months	-	360,627
Past due 3 - 6 months	39,014	209,609
Past due 6 - 9 months	24,804	183,519
Past due 9 - 12 months	12,528	59,494
Past due more than 12 months	198,212	126,537
Provision for impairment	(236,130)	(155,147)
Total	**2,861,740**	**3,363,492**

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they fall due.

The management controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period.

The Group performs regular monitoring of future expected cash flows in order to manage liquidity risk, which is a part of assets/liabilities management process.

An analysis of the liquidity is presented in the following table:

2018	Up to 1 year	Over 1 years	Total
Financial liabilities			
Other insurance liabilities	2,515,883	-	**2,515,883**
Other liabilities	95,289	-	**95,289**
Total Financial liabilities	**2,611,172**	**-**	**2,611,172**

2017	Up to 1 year	Over 1 years	Total
Financial liabilities			
Other insurance liabilities	2,325,310	28,308	**2,353,618**
Other liabilities	92,453	-	**92,453**
Total Financial liabilities	**2,417,763**	**28,308**	**2,446,071**

23. Risk management (Continued)

Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

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

– **Interest Rate Risk**

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. In current period the Group does not have any borrowings with variable interest rate.

– **Currency risk**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

2018	GEL	USD	EUR	Total
Financial assets				
Insurance and reinsurance receivables	729,101	1,758,831	373,808	**2,861,740**
Amount due from credit institutions	5,491,619	-	-	**5,491,619**
Cash and cash equivalents	639,131	1,202	130	**640,463**
	6,859,851	**1,760,033**	**373,938**	**8,993,822**
Financial liabilities				
Other insurance liabilities	-	1,691,121	824,762	**2,515,883**
Other liabilities	95,289	-	-	**95,289**
	95,289	**1,691,121**	**824,762**	**2,611,172**
Open balance sheet position	**6,764,562**	**68,912**	**(450,824)**	

	GEL	USD	EUR	Total
Financial assets				
Insurance and reinsurance receivables	1,102,162	1,730,442	530,888	**3,363,492**
Amount due from credit institutions	3,170,137	-	-	**3,170,137**
Cash and cash equivalents	475,333	33,160	3,834	**512,327**
	4,747,632	**1,763,602**	**534,722**	**7,045,956**
Financial liabilities				
Other insurance liabilities	-	1,377,112	976,506	**2,353,618**
Other liabilities	92,453	-	-	**92,453**
	92,453	**1,377,112**	**976,506**	**2,446,071**
Open balance sheet position	**4,655,179**	**386,490**	**(441,784)**	

23. Risk management (Continued)

Currency risk sensitivity

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

Impact on net profit and equity based on asset values as at 31 December 2018 and 2017:

		USD		EUR	
Year		GEL/USD 20%	GEL/USD - 20%	GEL/EUR 20%	GEL/EUR - 20%
2018	Profit/Loss	13,782	(13,782)	(90,165)	90,165
2017	Profit/Loss	77,298	(77,298)	(88,357)	88,357

24. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 'Related party disclosures', represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;

b) Members of key management personnel of the Group or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Group and other related parties are disclosed below.

Included in the statement of comprehensive income for the years ended 31 December 2018 and 2017 are the following amounts which were recognized in transactions with related parties:

	2018 Related party transactions	2017 Related party transactions
Key management personnel compensation		
Short term employee benefits	(104,813)	(96,750)
Administrative expenses		
Shareholder	(10,340)	(11,758)
Other related party	(4,739)	(1,447)
Insurance Premiums		
Shareholder	579,018	580,517
Other related party	441,446	289,776
Insurance claims		
Shareholder	537,238	429,784
Other related party	443,452	4,332
Financial income		
Shareholder	234,162	155,820

24. Transactions with related parties (Continued)

	31.12.2018	31.12.2017
Insurance and reinsurance receivables		
Other related party	111,133	1,597,259
Other Liabilities		
Shareholder	88,333	-
Other related party	431	-

25. Commitments and contingencies

Legal cases - As at 31 December 2018 and 2017 the Group has no legal actions and complaints. Management believes that the ultimate liability, if any, arising from actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. Related to above mentioned no provision is accrued in the Consolidated and Separate financial Statements.

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

Financial commitments and contingencies – Total non-cancellable future operating lease commitments as at 31 December 2018 and 2017 are presented as follows:

	31.12.2018	31.12.2017
Up to 1 year	188,760	192,665
1 year to 5 years	188,760	377,520
Over 5 years	-	-
Total	**377,520**	**570,185**

26. Events after the reporting period

After the reporting period The Group still represents an insurer participating in the insurance system accomplished with the help of the non-profit (non-commercial) legal entity “Compulsory Insurance center“. Gross written premium from the compulsory insurance after the reporting period till the end of the March, 2019 amounts GEL210,678.