JSC Insurance Company GPI Holding

Separate Financial Statements for 2019

Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Management of JSC Insurance Company GPI Holding (the "Company") is responsible for the accompanying separate financial statements presented on pages 6 to 44.

This responsibility includes:

- preparation of separate financial statements in accordance with International Financial Reporting Standards issued by IASB;
- selection of suitable accounting policies and their consistent application;
- making judgments and estimates which are reasonable and prudent;
- preparation of the separate financial statements on the going concern basis, unless circumstances make this inappropriate.

Management is also responsible for:

- creation, implementation and maintaining effective accounting and internal control systems;
- keeping proper accounting records in compliance with local regulations;
- taking such steps as are reasonably open to them to safeguard the assets of the Company, and
- prevention and detection of fraud and other irregularities.

The separate financial statements for the year ended 31 December 2019 were approved by the management and signed on its behalf by:

Paata Lomadze
General Director
JSC Insurance Company GPI Holding

Levan Zuroshvili
Chief Financial Officer
JSC Insurance Company GPI Holding

Date: 24 March 2020

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Independent Auditors' Report

To the Supervisory Board of JSC Insurance Company GPI Holding

Opinion

We have audited the separate financial statements of JSC Insurance Company GPI Holding (the "Company"), which comprise the separate statement of financial position as at 31 December 2019, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2019, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the separate financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

- is consistent with the separate financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

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

In preparing the 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.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 auditors' report to the related disclosures in the 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 auditors' 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 separate financial statements, including the disclosures, and whether the separate 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Gevorgyan

KPMG Georgia LLC
Tbilisi, Georgia
24 March 2020

	Note	31 December 2019 GEL'000	31 December 2018* GEL'000
Assets			
Property and equipment	12	4,387	3,646
Intangible assets		1,968	1,532
Investment property		206	155
Investments in subsidiaries	13	680	11,080
Bank deposits	20	27,690	20,208
Loans receivable		1,826	1,065
Reinsurance assets	11	12,182	17,626
Insurance receivables	20	39,999	36,942
Deferred acquisition costs		7,852	5,630
Other assets	14	18,590	17,062
Cash and cash equivalents	15	3,042	5,646
Total assets		**118,422**	**120,592**
Equity			
Ordinary shares	16	32,030	27,550
Share premium		126	126
Revaluation reserve for property		2,234	2,234
Retained earnings		11,085	19,214
Total equity		**45,475**	**49,124**
Liabilities			
Insurance contract liabilities	10		
Premium provision		47,069	38,977
Outstanding claims		10,688	19,249
Insurance and reinsurance payables		4,833	4,449
Investment contract liabilities	17	2,620	3,274
Trade and other payables	18	7,310	5,496
Deferred tax liability	9	427	23
Total liabilities		**72,947**	**71,468**
Total equity and liabilities		**118,422**	**120,592**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 5.

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 24 March 2020

The notes set out on pages 10 to 44 form an integral part of the separate financial statements.

	Note	2019 GEL'000	2018* GEL'000
Income			
Gross premiums		104,583	103,931
Less: reinsurers' share of gross premiums		(17,395)	(17,443)
Net premiums		**87,188**	**86,488**
Change in the gross provision for unearned premiums		(8,092)	(1,189)
Change in the reinsurers' share in gross provision for unearned premiums		(257)	17
Net premiums earned		**78,839**	**85,316**
Commission income from reinsurance		4,061	4,148
Investment and other income	6	5,714	3,201
Total income		**88,614**	**92,665**
Expenses			
Gross benefits and claims paid	10	(73,141)	(77,186)
Reinsurers' share of gross benefits and claims paid	11	10,377	9,603
Gross change in outstanding claims	10	8,561	2,517
Change in reinsurers' share in outstanding claims	11	(5,187)	(25)
Net benefits and claims		**(59,390)**	**(65,091)**
Interest expense		(97)	(263)
Direct acquisition fees and commissions		(2,695)	(2,445)
Other acquisition expenses	7	(18,400)	(14,009)
Change in deferred acquisition costs		2,222	568
Other operating and administrative expenses	8	(6,174)	(5,317)
Total expenses		**(84,534)**	**(86,557)**
Result before income tax and sale of subsidiary		4,080	6,108
Loss from sale of subsidiary	13	(7,325)	-
(Loss)/profit before income tax		**(3,245)**	**6,108**
Income tax expense	9	(404)	(838)
(Loss)/profit for the year		**(3,649)**	**5,270**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation of property	12	-	2,234
Other comprehensive income for the year		**-**	**2,234**
Total comprehensive (loss)/income for the year		**(3,649)**	**7,504**

*The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See Note 5.

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 24 March 2020

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	Note	2019 GEL'000	2018* GEL'000
Cash flow from operating activities			
(Loss)/profit for the year		(3,649)	5,270
Adjustments for:			
Depreciation and amortization		1,156	683
Loss on sale of Investment		7,325	688
Loss on disposal/write-off of investment property and property and equipment		35	48
Gain on write-off of reinsurance payables		(1,184)	-
Interest income		(1,617)	(1,473)
Interest expense		97	263
Income tax expense		404	838
		2,567	**6,317**
Changes in operating assets and liabilities:			
Change in premium reserves, net of reinsurance		8,349	1,172
Change in outstanding claims, net of reinsurance		(3,374)	(2,492)
Change in insurance receivables		(3,057)	(2,175)
Change in deferred acquisition costs		(2,222)	(568)
Change in other assets		(1,490)	(587)
Change in insurance and reinsurance payables		1,568	(3,590)
Change in investment contract liabilities		(655)	(2,971)
Change in trade and other payables		1,148	(626)
		2,834	**(5,520)**
Income tax paid		(3)	(1,654)
Net cash from/(used in) operating activities		**2,831**	**(7,174)**
Cash flow from investing activities			
Net acquisition of property and equipment and intangible assets		(1,434)	(758)
Issuance of loans		(982)	(1,356)
Repayment of loans receivable		231	987
Proceeds from sale of investment in subsidiaries		3,075	1,000
Placements on bank deposits		(25,029)	(19,050)
Withdrawals from bank deposits		17,609	18,882
Interest received		1,459	1,303
Net cash (used in)/from investing activities		**(5,071)**	**1,008**
Cash flow from financing activities			
Increase of share capital		-	5,400
Repayment of lease liabilities		(364)	-
Net cash (used in)/from financing activities		**(364)**	**5,400**
Decrease in cash and cash equivalents		**(2,604)**	**(766)**
Cash and cash equivalents at the beginning of the year		5,646	6,412
Cash and cash equivalents at the end of the year	15	**3,042**	**5,646**

*The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 5.

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 24 March 2020

The notes set out on pages 10 to 44 form an integral part of the separate financial statements.

	Ordinary shares GEL'000	Share premium GEL'000	Revaluation reserve for property GEL'000	Retained earnings GEL'000	Total Equity GEL'000
Balance as at 1 January 2018	**17,288**	**126**	**-**	**18,206**	**35,620**
Transactions with owners recorded directly in equity					
Dividend distribution	-	-	-	(4,262)	(4,262)
Issuance of shares (note 16)	10,262	-	-	-	10,262
Total comprehensive income					
Profit for the year	-	-	-	5,270	5,270
Revaluation of property	-	-	2,234	-	2,234
Balance as at 31 December 2018	**27,550**	**126**	**2,234**	**19,214**	**49,124**
Balance as at 1 January 2019*	**27,550**	**126**	**2,234**	**19,214**	**49,124**
Transactions with owners recorded directly in equity					
Dividend distribution	-	-	-	(4,480)	(4,480)
Issuance of shares (note 16)	4,480	-	-	-	4,480
Total comprehensive loss					
Loss for the year	-	-	-	(3,649)	(3,649)
Balance as at 31 December 2019	**32,030**	**126**	**2,234**	**11,085**	**45,475**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 5.

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 24 March 2020

The notes set out on pages 10 to 44 form an integral part of the separate financial statements.

NOTE 1. Reporting entity

A. Georgian business environment

The Company’s operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Georgia. The separate financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

B. Organisation and operations

JSC Insurance Company GPI Holding (the “Company” or “GPIH”) was incorporated in Georgia in 2001. The Company’s registered office is in 67 M. Kostava, Tbilisi, Georgia. The Company is licensed to provide life and non-life insurance services in Georgia. However, Insurance Company GPI Holding JSC only offers insurance services in health, property and other non-life segments. The Company is also managing private pension funds in Georgia.

As at 31 December 2019 and as at the date these separate financial statements were authorised for issue, 90% of the ordinary shares are held by ATBIH GmbH and 10% are held by Soft International Georgia LLC.

As at 31 December 2018, 31 December 2019 and the date these separate financial statements were authorised for issue, the Company’s intermediate parent is VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna (“VIG”). The Company is ultimately controlled by Wiener Stadtische Wechselseitiger Versicherungsverein – Vermogensverwaltung – Vienna Insurance Group, Vienna.

NOTE 2. Basis of accounting

A. Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

This is the first set of the Company’s annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 5.

The Company has applied the temporary exemption from IFRS 9 *Financial Instruments* as permitted by IFRS 4 *Insurance Contracts* and has not previously adopted any version of IFRS 9, including the requirements from the presentation of gains and losses on financial liabilities designated as at FVTPL, for annual periods beginning before 1 January 2018. Company plans to have a single date of initial application of 1 January 2023 for whole IFRS 9.

The Company has not prepared consolidated financial statements based on IFRS 10 *Consolidated Financial Statements* as the Company itself is a partially-owned subsidiary of another entity and its other owners have been informed about, and do not object to, the Company not preparing consolidated financial statements; the Company's debt or equity instruments are not traded in a public market; the Company did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; the intermediate parent VIG produces consolidated financial statements available for public use that comply with EU IFRS. The consolidated financial statements of VIG can be obtained from the VIG Group web site www.vig.com.

NOTE 3. Functional and Presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these separate financial statements are presented.

All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

NOTE 4. Use of estimates and judgements

The preparation of separate financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the separate financial statements is assessment of whether the Company's activities are predominantly connected with insurance – description of the assessment is presented below in this Note.

Assessment of whether the Company's activities are predominantly connected with insurance

The temporary exemption from IFRS 9 applies for those entities whose activities are predominantly connected with insurance. Eligibility is assessed at the reporting entity level and is therefore applied at the reporting entity level – i.e. it applies to all financial assets and financial liabilities held by the reporting entity.

The Company applied temporary exemption from IFRS 9 as:

- the Company has not previously applied any version of IFRS 9; and
- Company's activities as a whole are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016, i.e. as at 31 December 2015.

Under IFRS 4, an insurer's activities are predominantly connected with insurance if, and only if:

- (a) the carrying amount of its liabilities arising from contracts within the scope of IFRS 4, which includes any deposit components or embedded derivatives unbundled from insurance contracts, is significant compared to the total carrying amount of all its liabilities; and
- (b) the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
  - (i) greater than 90 per cent; or
  - (ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance.

Under IFRS 4, liabilities connected with insurance comprise:

(a) Liabilities arising from contracts within the scope of IFRS 4;
(b) Non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39; and (c) Liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital, liabilities for salaries and other employment benefits for the employees of the insurance activities.

As at 31 December 2015 liabilities connected with insurance comprised:

	31 December 2015 GEL'000
Liabilities connected with insurance within the scope of IFRS 4	***45,871***
Insurance provisions	45,871
Liabilities connected with insurance not within the scope of IFRS 4	***22,991***
Trade and other payables	10,022
Deferred tax liabilities	197
Insurance payables	12,772
Total carrying amount of liabilities connected with insurance	**68,862**
Total carrying amount of liabilities	**74,104**
Percentage of the total carrying amount of Company's liabilities connected with insurance relative to the total carrying amount of all its liabilities	**93%**

The Company is not engaged in any significant activities unconnected with the insurance from which it may earn income and incur expenses. The Company is subject to all regulatory requirements related to insurers and considers insurance risk as its main business risk. In addition, the Company did not identify any quantitative or qualitative factors (or both), including publicly available information, that could indicate that regulatory bodies or other users of the company's separate financial statements apply other industry classification to the Company.

Based on the assessment performed the Company concludes that as at 31 December 2015 the Company's activities are predominantly connected with insurance. Since 31 December 2015 there were no significant changes in the Company's operations, thus the Company did not perform reassessment of whether the company's activities are predominantly connected with insurance on any subsequent annual reporting date.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended as at 31 December 2019 is included in the following notes:

- Note 10 – Insurance contract liabilities; and
- Note 19 (C) – Concentration of insurance risk.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values for financial assets and liabilities and for land and building class of property and equipment.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in note 20 – Financial instruments and risk management.

NOTE 5. Changes in accounting policy

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these separate financial statements.

Changes in presentation in the separate statement of cash flows

The Company considers bank deposits and respective interest received to represent cash flows from investing activities. In the separate statement of cash flows for 2019 cash flows from bank deposits and interest received, which were previously presented within cash flows from operations, are presented within cash flows from investing activities. Comparatives were amended accordingly. The Company believes that this presentation is more consistent with the structure of Company's operations.

	2018		
Statement of cash flows **'000 GEL**	**As previously reported**	**Amount reclassified**	**As currently reported**
Cash flows used in operations	(6,039)	(1,135)	(7,174)
Cash flows (used in)/from investing activities	(127)	1,135	1,008

IFRS 16

The Company initially applied IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Company applied IFRS 16 using the modified retrospective approach and has measured the right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

As a lessee, the Company leases head office and service centre spaces. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for head office leases – i.e. these leases are on-balance sheet.

(c) Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- applied a single discount rate to a portfolio of leases with similar characteristics;
- used hindsight when determining the lease term.

(d) Impact on separate financial statements

On transition to IFRS 16, the Company recognised additional right-of-use assets at an amount equal to the lease liability in the amount of GEL 936 thousand.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 11.33% and 8.02% for GEL and USD denominated leases, respectively.

(e) Impact for the year

The impact of IFRS 16 on the separate financial statements for the year ended 31 December 2019 has been as follows:

'000 GEL	**Land and buildings**
Right of use assets	
Balance at 1 January 2019	936
Depreciation charge for the year	(312)
Balance at 31 December 2019	**624**
Lease liability	
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	-
Recognition of lease payments under cancellable leases discounted using the incremental borrowing rate of 11.33%, 8.02%	936
Lease liability at 1 January 2019	**936**
Interest charge	97
Payments	(364)
Lease liability at 31 December 2019	**670**

NOTE 6. Investment and other income

	2019 GEL'000	**2018 GEL'000**
Interest income on bank balances	1,447	1,364
Gain on write-off of reinsurance payable	1,184	-
Gain on currency forward contract	1,015	883
Net foreign exchange gain	935	482
Interest income on loans receivable	170	109
Other	963	363
	5,714	**3,201**

NOTE 7. Other acquisition expenses

	2019 GEL'000	2018 GEL'000
Wages and salaries	9,690	8,423
Marketing expenses	6,978	3,697
Office expenses	815	868
Depreciation	598	477
Business trips	50	53
Others	269	491
	18,400	**14,009**

NOTE 8. Other operating and administrative expenses

	2019 GEL'000	2018 GEL'000
Wages and salaries	3,505	2,776
Depreciation and amortization	519	78
Regulatory fee	965	1,027
Other	1,225	1,436
	6,174	**5,317**

The other expense include fees paid to the audit firm of about GEL 141 thousand (2018: GEL 122 thousand) for the provision of audit services and the impairment charge on insurance receivables of GEL 445 thousand (2018: GEL 308 thousand).

NOTE 9. Income taxes

The Company's applicable tax rate is the income tax rate of 15% (2018: 15%).

	2019 GEL'000	2018 GEL'000
Origination and reversal of temporary differences	404	157
Current income tax expense	-	681
Total income tax expenses	**404**	**838**

Reconciliation of effective tax rate:	2019 GEL'000	2018 GEL'000
(Loss)/Profit before tax	(3,245)	6,108
Income tax at the applicable tax rate	(487)	916
Net (non-taxable income)/non-deductible expenses	891	(78)
	404	**838**

Movement in temporary differences during the year:

GEL'000	1 January 2019	Recognized in profit or loss	31 December 2019
Deferred acquisition	-	(1,092)	(1,092)
Tax loss carried forward	-	1,075	1,075
Provision for outstanding claims	-	(336)	(336)
Property and equipment and intangible assets	(23)	(90)	(113)
Lease liability	-	101	101
Trade and other payables	-	(62)	(62)
	(23)	**(404)**	**(427)**

GEL'000	1 January 2018	Recognized in profit or loss	31 December 2018
Investment in subsidiaries	122	(122)	-
Property and equipment and intangible assets	-	(23)	(23)
Other receivables, net	12	(12)	-
	134	**(157)**	**(23)**

On 13 May 2016 the Parliament of Georgia passed a 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. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law was intended to become effective from 1 January 2019. On 28th of December 2018, the law was further amended. The Financial Institution's transition to the new taxation system becomes effective from 1 January 2023, instead of 1 January 2019.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

The deferred tax liability of GEL 427 thousand is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023.

Tax losses of GEL 7,171 thousand expire in 2022 for which deferred tax asset of GEL 1,075 thousand was recognized. The Management expects that the Company will generate sufficient taxable profit, against which the deductible temporary difference can be utilized. The estimate of taxable profit is based on historical profitability of the Company and forecasts of future earnings.

NOTE 10. Insurance contract liabilities

	31 December 2019 GEL'000	31 December 2018 GEL'000
Unearned premium provision	47,069	38,977
Reported but not settled claims (RBNS)	9,371	17,820
Incurred but not reported claims (IBNR)	1,317	1,429
	57,757	**58,226**

A. Movement in outstanding claims (gross)

	2019 GEL'000	2018 GEL'000
Balance at 1 January	19,249	21,766
Expected cost of current year claims (note 19 (D))	66,999	78,099
Change in estimates in respect of prior year claims	(2,419)	(3,430)
Gross benefits and claims paid	(73,141)	(77,186)
Balance at 31 December	**10,688**	**19,249**

B. Movement in unearned premium provision (gross)

	2019 GEL'000	2018 GEL'000
Balance at January 1	38,977	37,789
Premium written in the year	104,583	103,931
Premium earned during the year	(96,491)	(102,743)
Balance at December 31	**47,069**	**38,977**

C. The methods for determining various types of insurance liabilities

(i) Unearned premium provision

The provision for unearned premium is based on written premiums and is calculated on a proportional basis in respect of the unexpired term of the policy for which the premium has been received.

(ii) Provision for outstanding claims

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date, but not yet settled (RBNS) and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR).

RBNS is created for known outstanding claims that include an appropriate provision for settlement and handling expenses. This provision is based mainly on an individual valuation for each claim according to the opinion obtained from the insured, legal advisors and the Company's experts that handle the claims.

IBNR claims reserve is calculated by the Company's actuaries. The ultimate cost of these claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson, or in some cases, the expected loss ratio method is applied in order to ensure reasonable estimations when the statistical method fails. The actuaries carry out estimations using data regarding claims payments, numbers of claims reported and case-reserves.

(iii)The assumptions and models used for determining the provisions

For the purpose of valuing outstanding claims, or supplementing the claims departments' per-claim case reserves for IBNR, the actuarial models detailed below have been used in conjunction with various assumptions:

- Chain ladder: this method is based on the development of historical claims (development of payments and/or development of amount of claims, development of the number of claims, etc.), in order to evaluate the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period since the event occurred or the policy is written, when there is enough information from the existing claims in order to evaluate the total anticipated claims.
- Bornhuetter-Ferguson (or modified version thereof): this method combines early estimates known in the Company or class of business, and additional estimates based on the claims themselves. The early estimates utilize premiums and the loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weights the two estimates while a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business or one with insufficient historical information;
- The average payment per claim: at times, as in the Bornhuetter-Ferguson method, when the claims experience is insufficient, the historical average method is utilized. In this method the provision is calculated based on the forecast of the number of claims (chain ladder method) and historical average claim size.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future with changes based on trends in claim frequency and severity due to changes in regulations, policy conditions, customer mix, etc. All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute.

Liability adequacy tests are carried out by the Company as follows:

a) For most of the liability (e.g. in respect of motor and health business) for outstanding claims net of recoverable reinsurance, subrogation and salvage, an actuarial analysis is carried out in order to determine that the recorded liability (net of relevant assets) is adequate based on the current best estimates of future claims development. If the liabilities are not adequate they are increased through profit or loss.

b) For the liability for unexpired risks (the unearned premium reserve net of DAC) an actuarial estimate is carried out of the expected future loss ratio in respect of unexpired risks on in-force contracts. If the expected loss ratio implies that the unearned premium provision net of DAC is inadequate, the DAC is reduced, and if necessary the unearned premium reserve is increased, until it is adequate.

The liability adequacy test did not reveal any shortfall as at 31 December 2019.

NOTE 11. Reinsurance assets

	31 December 2019 GEL'000	31 December 2018 GEL'000
Provision for unearned premiums – reinsurance	6,928	7,185
Provision for outstanding claims – reinsurance	5,254	10,441
	12,182	**17,626**

Movement in provision for unearned premiums – reinsurance	**2019 GEL'000**	**2018 GEL'000**
Balance at 1 January	**7,185**	**7,168**
Written premiums ceded to reinsurers during the year	17,395	17,443
Premiums ceded to reinsurers incurred during the year	(17,652)	(17,426)
Balance at 31 December	**6,928**	**7,185**

Movement in provision for outstanding claims – reinsurance	**2019 GEL'000**	**2018 GEL'000**
Balance at 1 January	**10,441**	**10,466**
Reinsurers' share in claims incurred in the current accident year	5,005	13,643
Change in estimates in respect of prior year reinsurers' share in claims	185	(4,065)
Reinsurers' share of gross benefits and claims paid	(10,377)	(9,603)
Balance at 31 December	**5,254**	**10,441**

NOTE 12. Property and equipment

GEL'000	Land and buildings	Computers and related equipment	Motor vehicles	Office furniture and equipment	Right of use assets	Total
Cost						
1 January 2019	2,889	2,395	326	1,165	-	6,775
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	936	936
Adjusted balance at 1 January 2019	2,889	2,395	326	1,165	936	7,711
Additions	-	540	38	35	-	613
Disposals / write-off	-	(4)	(60)	-	-	(64)
31 December 2019	**2,889**	**2,931**	**304**	**1,200**	**936**	**8,260**
Accumulated depreciation						
1 January 2019	-	1,833	213	1,083	-	3,129
Charge for the year	150	229	30	52	312	773
Disposals / write-off	-	-	(29)	-	-	(29)
31 December 2019	**150**	**2,062**	**214**	**1,135**	**312**	**3,873**
Net book value						
31 December 2019	**2,739**	**869**	**90**	**65**	**624**	**4,387**
Cost						
1 January 2018	2,889	2,205	309	1,130	-	4,860
Additions	-	190	110	35	-	335
Disposals	-	-	(93)	-	-	(93)
Elimination of depreciation	(561)	-	-	-	-	(561)
Revaluation	2,234	-	-	-	-	2,234
31 December 2018	**2,889**	**2,395**	**326**	**1,165**	**-**	**6,775**
Accumulated depreciation						
1 January 2018	495	1,639	224	1,016	-	3,374
Charge for the year	66	194	34	67	-	361
Elimination of depreciation	(561)	-	-	-	-	(561)
Disposals	-	-	(45)	-	-	(45)
31 December 2018	**-**	**1,833**	**213**	**1,083**	**-**	**3,129**
Net book value						
31 December 2018	**2,889**	**562**	**113**	**82**	**-**	**3,646**

As at 31 December 2018 the revaluation of building was made by the independent valuator. Total revaluation reserve amounted to GEL 2,234 thousand. The fair value was determined based on announced asking prices of similar properties in the similar location and physical condition. The significant unobservable inputs related to the differences in the characteristics of the lands, such as size, location, access to the property and discount achieved through negotiation, for which the appraiser applied 10% to 35% adjustments to observed asking prices. The range for one square meter varied from USD 1,225 to USD 1,650.

The management team regularly reviews significant unobservable inputs and valuation adjustments. As a result of such review performed by the management as at 31 December 2019 no significant indicators were observed on the market, that would materially change the fair value of land and buildings as at 31 December 2019.

The fair value is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments to observable inputs to the valuation technique used.

Carrying amount of land and buildings had no revaluations taken place as at 31 December 2019 would amount to GEL 579 thousand (2018: GEL 664 thousand).

NOTE 13. Investments in subsidiaries

	Activity	31 December 2019 GEL'000	Ownership %	31 December 2018 GEL'000	Ownership %
Medical Concern Curatio JSC	Medical services	680	100	680	100
Geo Hospitals LLC	Hospitals	-	-	10,400	65
		680		**11,080**	

In 2019 the Company fully disposed the shares in subsidiary for GEL 3,075 thousand. The cost of investment in subsidiary at the date of disposal amounted GEL 10,400 thousand and the Company incurred loss of GEL 7,325 thousand on the sale of investment in subsidiary.

Principal place of business and country of incorporation of Medical Concern Curatio JSC is Georgia.

NOTE 14. Other assets

	31 December 2019 GEL'000	31 December 2018 GEL'000
Receivables from subrogation	13,649	12,536
Other advances to subsidiaries and other counterparties	3,197	2,869
Receivable from sale of investment property	2,986	2,787
Advances to subsidiaries and other counterparties for medical services	1,561	1,540
Prepayment for taxes	942	1,034
Purchased bonds	860	-
Others	1,280	1,581
	24,475	**22,347**
Allowance for impairment	(5,885)	(5,285)
	18,590	**17,062**

Analysis of movements in the allowance for impairment

	2019 GEL'000	2018 GEL'000
Balance at the beginning of the year	5,285	4,785
Net charge for the year	600	500
Balance at the end of the year	**5,885**	**5,285**

NOTE 15. Cash and cash equivalents

	31 December 2019 GEL'000	31 December 2018 GEL'000
Cash on hand	60	60
Cash in banks	2,982	5,586
Cash and cash equivalents in the separate statement of financial position and in the separate statement of cash flows	**3,042**	**5,646**

NOTE 16. Ordinary shares

The authorized and paid-in share capital of the Company is specified below. Each share entitles the holder to one vote in the shareholders meetings of the Company.

Authorized, issued and paid-in capital	31 December 2019		31 December 2018	
	Number of shares	Par Value GEL '000	Number of shares	Par Value GEL '000
Ordinary shares	1,500	21.35	1,500	18.37

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

During 2019, the company declared dividends of GEL 4,480 thousand to its shareholders, which was converted into the share capital of the Company.

During 2018, the Company declared dividends of GEL 4,262 thousand to its shareholders, which was converted into the share capital of the Company.

Declared dividends per share amounted GEL 2,978 and GEL 2,841 in 2019 and 2018, respectively.

NOTE 17. Investment contract liabilities

	31 December 2019	31 December 2018
Number of registered participants		
• In the voluntary funds	11,304	11,511
Total assets under management (GEL'000)	**2,620**	**3,274**

Participants have a right to call their investments on demand. Participants receive income based on the average yield of term deposits of the Company.

NOTE 18. Trade and other payables

	31 December 2019 GEL'000	31 December 2018 GEL'000
Insurance premium paid in advance	4,169	4,084
Commission payable	981	813
Lease liability	670	-
Employee liabilities	467	400
Other liabilities	1,023	199
	7,310	**5,496**

NOTE 19. Insurance risk management

A. Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from individuals or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, health, cargo or other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Risks under non-life insurance policies usually cover twelve month duration. For general insurance contracts the most significant risks arise from changes in the relevant legal environment, changes in behaviour of policyholders, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from epidemics, natural disasters and increases in health care costs.

The Company also has exposure to market risk through its insurance activities. The Company manages its insurance risk through the use of established statistical techniques, reinsurance of risk concentrations, underwriting limits, approval procedures for transactions, pricing guidelines and monitoring of emerging issues.

(i) Underwriting strategy

The Company's underwriting strategy seeks diversity so that the portfolio at all times includes several classes of non-correlating risks and that each class of risk, in turn, is spread across a large number of policies. Management believes that this approach reduces the variability of the outcome.

The underwriting strategy is set out in the business plan that stipulates the classes and subclasses of business to be written. The strategy is implemented through underwriting guidelines that determine detailed underwriting rules for each type of product. The guidelines contain insurance concepts and procedures, descriptions of inherent risk, terms and conditions, rights and obligations, documentation requirements, template agreement/policy examples, rationale of applicable tariffs and factors that would affect the applicable tariff. The tariff calculations are based on probability and variation.

Adherence to the underwriting guidelines is monitored by management on an on-going basis.

Strict claim review policies to assess all new and on-going claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and processes put in place to reduce claims. Where appropriate, the Company further enforces a policy of actively managing and promoting pursuing 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.

(ii) Reinsurance strategy

In order to reduce the insurance risks the Company utilises a reinsurance program. The majority of reinsurance business ceded is placed on a proportional and quota share/excess of loss basis with retention limits varying by product line (for all significant risks in all business lines the Company writes business only with facultative cover with no significant retention).

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the separate statement of financial position as reinsurance assets. Although the Company has 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 under such reinsurance agreements. Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At the end of each reporting period, management performs an assessment of creditworthiness of reinsurers to update reinsurance purchase strategy and ascertaining suitable allowance for impairment of reinsurance assets.

B. Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

(i) Medical insurance

Product features

The largest part of the Company's insurance portfolio relates to medical insurance. These contracts pay benefits for medical treatment and hospital expenses. This make up approximately 65% of the total insurance business respectively in terms of net earned premiums of the Company. The portfolio consists predominantly of collective corporate policies as at 31 December 2019.

Management of risk

Health insurance cover is subject to the primary peril of the need for a medical treatment. The Company manages its risks through writing predominantly corporate policies and through the use of medical screening so that pricing considers current health conditions. Besides, the Company uses the services of its subsidiary company clinics and pharmacies based on pre-agreed prices.

(ii) Motor insurance

Product features

Motor insurance includes both fully comprehensive insurance (“Casco”) and motor third party liability insurance (“MTPL”). Casco and MTPL insurances make up approximately 16% of the total insurance business respectively in terms of net earned premiums of the Company. Under Casco contracts, corporate entities and individuals are reimbursed for any loss of, or damage caused to their vehicles. MTPL contracts provide indemnity cover to the owner of the motor vehicle against compensation payable to third parties for property damage, death or personal injury. Motor insurance therefore includes both short and longer tail coverage. Claims that are typically settled quickly are those that indemnify the policyholder against motor physical damage or loss. Claims that take longer to finalise, and are more difficult to estimate, relate to bodily injury claims.

Management of risk

In general, motor claims reporting lags are minor, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimation risk. The Company monitors and reacts to trends in repair costs, injury awards and the frequency of theft and accident claims.

The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Company’s proprietary accident statistics database.

(iii)Property insurance

Product features

The Company writes property insurance. This includes both private property insurance and industrial property insurance. Property insurance indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property. Property insurances make up approximately 12% of the total insurance business respectively in terms of net earned premiums of the Company

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as short-tailed.

Management of risk

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

These risks are managed primarily through the pricing and reinsurance processes.

C. Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts with similar risk features, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contract tranches.

The Company's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its business. The Company assesses the costs and benefits associated with the reinsurance programme on an on-going basis.

The tables below set out the concentration of insurance contract liabilities (including liabilities for outstanding claims) by type of contract:

31 December 2019

	Gross			**Reinsurance share**			**Net**		
	Unearned premium provision	**Out-standing claims**	**Total**	**Unearned premium provision**	**Out-standing claims**	**Total**	**Unearned premium provision**	**Out-standing claims**	**Total**
Medical	24,025	3,060	27,085	29	-	29	23,996	3,060	27,056
Property	5,070	2,598	7,668	3,922	2,195	6,117	1,148	403	1,551
Motor	11,863	1,714	13,577	166	420	586	11,697	1,294	12,991
Credit Insurance	1,797	553	2,350	205	154	359	1,592	399	1,991
Marine & cargo	475	40	515	190	13	203	285	27	312
Agro	119	59	178	0	37	37	119	22	141
Other	3,720	2,664	6,384	2,416	2,435	4,851	1,304	229	1,533
Total	**47,069**	**10,688**	**57,757**	**6,928**	**5,254**	**12,182**	**40,141**	**5,434**	**45,575**

31 December 2018

	Gross			**Reinsurance share**			**Net**		
	Unearned premium provision	**Out-standing claims**	**Total**	**Unearned premium provision**	**Out-standing claims**	**Total**	**Unearned premium provision**	**Out-standing claims**	**Total**
Medical	21,175	6,255	27,430	26	-	26	21,149	6,255	27,404
Property	5,162	6,318	11,480	4,167	5,747	9,914	995	571	1,566
Motor	7,324	1,988	9,312	95	420	515	7,229	1,568	8,797
Credit Insurance	1,342	538	1,880	174	40	214	1,168	498	1,666
Marine & cargo	521	121	642	166	49	215	355	72	427
Agro	20	595	615	14	1,192	1,206	6	(597)	(591)
Other	3,433	3,434	6,867	2,543	2,993	5,536	890	441	1,331
Total	**38,977**	**19,249**	**58,226**	**7,185**	**10,441**	**17,626**	**31,792**	**8,808**	**40,600**

Key assumptions in estimating outstanding claims

The principal assumptions underlying the estimates relate to how the Company's future claims development experience will differ, if at all, from the past claims development experience. This includes, for each accident period, assumptions in respect of average claim costs, claim handling costs, claim inflation factors, number of claims and delays between the claim events, claim reporting and claim settlement. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other assumptions include variation in interest rates and changes in foreign currency rates.

Sensitivities

Management believes that, due to the short-tailed nature of the Company's business, the performance of the Company's portfolio is sensitive mainly to changes in expected loss ratios. The Company adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

D. Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Company. The table compares the claims paid on an accident year basis with the provisions established for these claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the separate statement of financial position and the estimate of cumulative claims.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these separate financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2019 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross) – Total

	before 2016	2016	2017	2018	2019	Total
Estimate of cumulative claims						
Accident year	47,980	48,885	75,173	78,100	66,999	317,137
One year later	46,867	46,531	72,647	76,695	-	242,847
Two years later	46,724	46,358	72,118	-	-	165,200
Three years later	46,575	46,044	-	-	-	92,619
Four years later	46,404	-	-	-	-	46,404
Current estimate of incurred claims	46,404	46,044	72,118	76,695	66,999	308,260
Cumulative payments to date	46,347	45,992	69,241	76,446	59,546	297,572
Gross outstanding claims liabilities	**57**	**52**	**2,877**	**249**	**7,453**	**10,688**

NOTE 20. Financial instruments and risk management

A. Accounting classifications and fair values

Management believes that the fair value of the Company's financial assets and financial liabilities approximates their carrying amounts due to short maturities of most of the aforementioned instruments.

The fair value of cash and cash equivalents is categorized into Level 1 of the fair value hierarchy. The fair value of bank deposits is categorized into Level 2 of the fair value hierarchy. The fair value of all other financial assets and liabilities is categorized into Level 3 of the fair value hierarchy.

B. Governance framework

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

The Supervisory Board of the Company has overall responsibility for the oversight of the risk management framework. Management of the Company is responsible for the management of key risks, designing and implementing risk management and control procedures as well as approving large exposures.

Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Company's activities.

C. Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks of natural disasters. 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 insurance companies to meet unforeseen liabilities as these arise.

D. Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risks that the Company faces due to the nature of its investments and liabilities are currency risk, credit risk, interest rate risk and insurance risk. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period that sufficient cash flow is available to meet liabilities arising from insurance contracts.

E. Financial risks

The major risks faced by the Company from its use of financial instruments are those related to market risk (which includes interest rate and currency risks), credit risk and liquidity risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segment (i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Supervisory Board and are subject to regular reviews. Reinsurance counterparties are approved by the Company's senior management. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the separate statement of financial position.

	31 December 2019 GEL'000	31 December 2018 GEL'000
Bank deposits	27,690	20,208
Loans receivable	1,826	1,065
Reinsurer's share of insurance contract provisions*	5,254	10,441
Insurance receivables	39,999	36,942
Receivables from subrogation	7,764	7,251
Receivable from sale of investment property	2,986	2,787
Purchased bonds	860	-
Cash and cash equivalents	3,042	5,646
Total credit risk exposure	**89,421**	**84,340**

*In 2019 the Company excluded reinsurers' share of unearned premiums from table of maximum exposure to credit risk. As a result, comparatives were also amended.

The cash and cash equivalents and bank deposits are mainly held with Georgian banks with short term issuer default rating of B, based on Fitch Rating. The Company does not expect any counterparty to fail to meet its obligations.

Loans of GEL 1,826 thousand (31 December 2018: GEL 1,065 thousand) are issued to the Company's subsidiary, Medical Concern Curatio JSC. They are neither past due not impaired as at 31 December 2019 and 31 December 2018.

Purchased bonds of GEL 860 thousand (31 December 2018: nil) are neither past due not impaired as at 31 December 2019. The bonds are purchased from Georgian bank with long term issuer default rating of BB-, based on Fitch Rating

The Company reinsures certain risks with reinsurance companies. The selection of reinsurance companies is based on criteria related to solvency and reliability and, to a lesser degree, diversification (the spreading of risk across counterparties). Reinsurance assets are not past due or impaired.

As at 31 December 2019 the Company has placements in four large banks (31 December 2018: two large banks), whose balances exceed 10% of total equity. The gross value of these balances as at 31 December 2019 is GEL 22,094 thousand (31 December 2018: GEL 12,013 thousand).

The aging of insurance receivables at the reporting date was:

GEL'000	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Not past due	36,805	-	34,786	-
Past due 0-90 days	2,041	-	689	-
Past due 91-180 days	445	45	762	76
Past due 181-270 days	327	98	362	108
Past due 271-365 days	265	132	238	119
Past due more than one year	4,993	4,602	4,537	4,129
	44,876	**4,877**	**41,374**	**4,432**

Analysis of movements in the allowance for insurance receivables:

'000 GEL	2019	2018
Balance at the beginning of the year	4,433	4,124
Net charge for the year	445	308
Balance at the end of the year	**4,877**	**4,432**

Net impairment charge of insurance receivables is included in other operating and administrative expenses.

Insurance receivables from health, motor and property contracts as at 31 December 2019 amounted to GEL 24,880 thousand, GEL 8,960 thousand and GEL 4,720 thousand, respectively (31 December 2018: GEL 22,784 thousand, GEL 4,995 thousand and GEL 5,330 thousand, respectively).

The Company is not subject to significant credit risk on receivables arising out of direct insurance operations as policies are cancelled and the unearned premium reserve relating to the policy is similarly cancelled when there is objective evidence that the policyholder is not willing or able to continue paying policy premiums.

Management believes that the unimpaired amounts that are past due by up to 90 days are still collectible in full, based on historic payment behaviour.

The Company routinely assesses the recoverability of its subrogation receivables and, as a consequence, believes that their credit risk exposure is limited. Subrogation receivables are carried at either the amount estimated to be recovered or at the amount, agreed between the Company and the third party, less an estimate made for doubtful subrogation receivables, based on a review of all outstanding amounts on a quarterly basis. A valuation allowance is provided for known and anticipated credit losses, as determined by management, on an individual basis. In case of default, the Company pursues legal actions against the third parties.

The receivable from the sale of investment property is fully collateralized with the sold property, so that in the event of non-payment the Company will receive the sold investment property back.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- Liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contracts obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

Majority of financial assets and liabilities is due within one year after the reporting date.

Maturity profiles

The Company uses maturity tables in managing its liquidity risk. All of the Company’s financial liabilities are contractually due to be settled during the six month period after the reporting date.

Management estimates that the timing of cash outflows from insurance contract liabilities does not exceed one year.

All of the Company’s assets and liabilities, except for property and equipment, intangible assets and investment property, are due to be recovered or settled during the twelve months after the reporting date.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

To mitigate the Company's exposure to market risk policies and procedures are in place to set and monitor asset allocation and portfolio limit structures.

(i) Currency risk

The Company's assets and liabilities are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Company has an open currency position (OCP) and is exposed to potentially unfavorable changes in exchange rates.

Management is responsible for continuously monitoring the development of exchange rates and foreign currency markets. The Company aims to close currency positions and ensures that an open currency position remains within the limits at all times.

As part of its risk management, the Company used foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Accordingly, at the start of each financial year, the Company concluded the agreement and hedged its EURO OCP with the nominal value of EUR 4,000 thousand and USD OCP with the nominal value of USD 3,000 thousand with an effective date of 31 December of each financial year. As at 31 December 2019, there were no open position in the above regards.

The following table shows the foreign currency structure of monetary assets and liabilities and insurance contract assets and liabilities at 31 December 2019 and 31 December 2018:

	31 December 2019, USD GEL'000	**31 December 2019, EUR GEL'000**	**31 December 2018, USD GEL'000**	**31 December 2018, EUR GEL'000**
Bank deposits	-	12,838	-	9,210
Reinsurance assets	3,556	10	8,684	39
Insurance receivables	10,699	680	11,761	1,614
Prepayments and other receivables	3,848	100	2,700	118
Cash and cash equivalents	44	204	26	5,220
Total assets	**18,147**	**13,832**	**23,171**	**16,201**
Liabilities				
Insurance contracts liabilities	5,262	84	8,161	64
Insurance and reinsurance payables	-	4,833	-	4,214
Investment contract liabilities	-	58	86	87
Trade and other payables	822	30	2,134	52
Total liabilities	**6,084**	**5,005**	**10,381**	**4,417**
Net position as at 31 December	**12,063**	**8,827**	**12,790**	**11,784**

A reasonably possible strengthening (weakening) of GEL, as indicated below, against USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss after tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant:

	31 December 2019 GEL'000	**31 December 2018 GEL'000**
10% appreciation of USD against GEL	1,025	1,087
10% depreciation of USD against GEL	(1,025)	(1,087)
10% appreciation of EUR against GEL	750	1,002
10% depreciation of EUR against GEL	(750)	(1,002)

(ii) Interest rate risk

Interest rate risk is the risk that fluctuations in market interest rates will affect adversely the financial position and the results of operations of the Company.

The Company does not have floating rate interest bearing instruments. Besides, the Company's interest bearing instruments have relatively short maturity. Therefore, management believes that the Company does not have significant exposure to interest rate risk.

F. Capital management

a) Capital management objectives, policies and approach

The main objective of capital management is to monitor and maintain, at all times, an appropriate level of capital which is commensurate with the Company's risk profile. The capital management of the Company has the following objectives:

- Compliance with the requirements of Insurance State Supervision Services of Georgia;
- Maintaining the composition and structure of the assets accepted to cover insurance liabilities, when due and to exceed regulatory requirements; and
- Maintaining the required level of stability of the Company thereby providing a degree of security to policyholders.

It is in the Company's interest to maintain adequate capital resources at all times and to fulfill respective minimum regulatory capital requirements. The Company has traditionally had very good capital resources. Maintaining this good capital base in the future is also important to the Company, both to allow to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

As part of the process in monitoring and managing its capital, the Company refers to its Asset Management Plan ("AMP"), which is focused on enabling the Company to constantly maintain a minimum level of funds, placed in top Georgian banks. Control of the structure of assets are carried out by means of monthly reports to the shareholder, containing the relevant calculations to be verified by Chief Financial Officer of the Company.

b) Regulatory requirements

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 from 31 December 2018 throughout the period should be at least either 1/3 of RSM or GEL 4,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances.

The company makes certain adjustments to the IFRS equity in these separate statements of financial position in order to arrive to the ISSSG prescribed capital.

The Company manages its capital requirements by preventing shortfalls between reported and required capital levels on a regular basis. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or inject further capital.

The Company was in compliance with the externally imposed capital requirements at the end of the reporting period and no changes were made to its objectives, policies and processes from the previous year for managing capital.

On 16 September 2016, ISSSG issued directives №15 and №16 on the determination of the Regulatory Solvency Margin ("RSM") and Regulatory Capital, respectively. The laws also impose the requirements on maintaining minimum Regulatory Capital as opposed to RSM. Considering that financial year 2017 was the transitional period for the implementation of the directives, the adherence requirements to the above were as follows:

- The Regulatory Capital should be at least either RSM or GEL 4,200 throughout the period from 1 January 2019 to 31 December 2020;
- The Regulatory Capital should be at least either RSM or GEL 7,200 throughout the period from 31 December 2020.

The Regulatory Capital is determined based on the IFRS equity, adjusted for, for example, investments in subsidiaries and associates, unsecured loans and borrowings, etc. as prescribed by the ISSSG directive №16.

As at 31 December 2019 , the Company was in compliance with the level of Regulatory Capital in excess of RSM.

NOTE 21. Related party transactions and balances

Name	Relationship	Transaction 2019 GEL'000	Outstanding balance 31 December 2019 GEL'000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		3,997	-
Advance payments for claims*		-	235
Loans given**		437	1,711
Interest income		121	-
Soft International Georgia LLC	Shareholder		
Other receivables		-	600
VIG	Ultimate parent		
Reinsurers' share of gross premiums		300	(62)
Reinsurers' share of gross benefits and claims paid		21	-
International insurance company Irao JSC	Fellow subsidiary		
Other income from Insurance Software		327	282
Forward agreement***		-	222
Interest expense		62	-
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurers' share of gross premiums		7,608	-
Reinsurers' share of gross benefits and claims paid		6,740	-
Reinsurance payable		-	(2,846)

* The advance payments for claims are carrying 0% interest rate and are expected to be realized within 6 month after the end of the reporting date.

** The loans given to related parties above are denominated in GEL and bear an interest rate of 10-12%.

*** The forward agreement was signed with International Insurance Company IRAO JSC, on 3 January 2018, to hedge the Company's EUR OCP with nominal value of EUR 900 thousand, with the maturity date of 31 December 2018. The balances at the end of reporting date represent the unpaid portions in the above regards.

Name	Relationship	Transaction 2018 GEL'000	Outstanding balance 31 December 2018 GEL'000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		4,125	-
Loans given*		-	890
Interest income		85	-
Public Pharmacy LLC	Subsidiary		
Claims paid		2,849	-
Advance payments for claims**		-	1,432
Geo Hospitals LLC	Subsidiary	-	-
Claims paid		307	-
Forward agreement***		645	623
TBIH GMBH	Shareholder		
Other receivables		5,400	-
Soft International Georgia LLC	Shareholder		
Other receivables		600	600
VIG	Ultimate parent		
Reinsurers' share of gross premiums		103	(36)
International insurance company Irao JSC	Fellow subsidiary		
Forward agreement***		238	242
Rental expense		310	-
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurers' share of gross premiums		7,034	-
Reinsurance share of gross benefits and claims paid		3,143	-
Reinsurance payable		-	(223)

* The loans given to related parties above are denominated in GEL and bear an interest rate of 10-12%.

** The advance payments for claims are carrying 0% interest rate and are expected to be realized within 6 month after the end of the reporting date.

*** The forward agreements were signed with Geo Hospitals LLC and International Insurance Company IRAO JSC to hedge the Company's EURO OCP with the nominal value of EUR 5,380 thousand and USD 3,000 thousand and EUR 900 thousand, respectively, with the maturity date of 31 December 2018. The balances at the end of reporting date represent the unpaid portions in the above regards.

Compensation of key management personnel

The remuneration of 5 directors of the Company for the years ended December 31 was as follows:

	2019 GEL'000	2018 GEL'000
Payroll	994	970
Bonuses	555	592
Other benefits	36	5
Total key management personnel compensation	**1,585**	**1,567**

NOTE 22. Contingencies and commitments

A. Legal proceedings

In the normal course of business the Company is a party to legal actions, mainly related to claims or subrogation payments. There are no major legal disputes as of the reporting date which could have a material impact on the Company's financial position.

B. Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

NOTE 23. Basis of measurement

The separate financial statements are prepared on the historical cost basis except for Property and equipment, land and building class which is carried at revalued amount.

NOTE 24. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements except for the policies described in Note 5.

A. Investments in subsidiaries and associates

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in subsidiaries are accounted at cost in the separate financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Investments in subsidiaries and associates are accounted at cost less impairment losses.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

C. Insurance contracts

(i) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Company to pay significant claims. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire. Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as financial instruments.

Financial guarantee contracts are accounted for as insurance contracts.

(ii) Recognition and measurement of contracts

Premiums

Gross premiums written comprise premiums on contracts entered into during the year, when they relate in whole or in part to the current period. Premiums are disclosed gross of commission payable to intermediaries. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period using the daily pro-rata method. Outward reinsurance premiums are recognised as an expense in accordance with the daily pro-rata method. The portion of outward reinsurance premiums not recognised as an expense is treated as a prepayment.

Policy cancellations

Policies are cancelled if there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Cancellations therefore affect mostly those policies where policy premiums are paid in instalments over the term of the policy.

Unearned premium provision

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

Claims

Net benefits and claims comprise claims paid during the financial year, net of subrogation recoveries and together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but not settled at the statement of financial position date, whether reported or not.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Anticipated reinsurance recoveries are recognised separately as assets. Reinsurance recoveries are assessed in a manner similar to the assessment of claims outstanding.

Adjustments to the amounts of claims provisions established in prior years are reflected in the separate financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(iii) Reinsurance

The Company cedes reinsurance in the normal course of business with retention limits varying by line of business. The reinsurers' shares in insurance liabilities and outstanding claims are presented separately in the separate statement of financial position, net of an allowance for credit losses, according to the estimates of management.

Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in profit or loss and the separate statement of financial position on a gross basis.

(iv) Deferred acquisition costs (DAC)

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

Direct and indirect costs above constitute sales commissions paid to employees, fee and commission costs paid or payable to agent and other counterparties for the conclusion and renewal of insurance agreements, etc.

Subsequent to initial recognition, DAC for general insurance and health products are amortised over the period in which the related revenues are earned.

(v) Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets for all lines of business on a combined basis. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified the related deferred acquisition cost is written down and, if necessary, an additional provision (unexpired risk provision) is established. The deficiency is recognised in profit or loss for the year.

(vi) Insurance receivables

Receivables arising from insurance contracts are classified as receivables and are reviewed for impairment as part of the impairment review of receivables.

Specifically, insurance receivables are recognised when the policy is issued and measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment on a specific basis and collectively for balances where there is no specific assessment, whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

D. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

E. Financial instruments

(i) Non-derivative financial assets and financial liabilities – recognition and measurement

The Company initially recognises loans and receivables, bank deposits and cash and cash equivalents on the date that they are originated.

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprises the following classes of financial assets:

- Insurance receivables as presented in note 20; and
- Receivables from subrogation as presented in note 14;

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and insurance and reinsurance payables.

(ii) Non-derivative financial assets and financial liabilities - derecognition

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

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

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

(iv) Gains and losses on subsequent measurement

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

F. Property and equipment

Property and equipment, which do not qualify as investment property, are stated at cost, except the Land and building class that are stated at fair value, excluding the costs of day to day servicing, less accumulated depreciation and any impairment. Land is not depreciated.

The initial cost of property and equipment includes directly attributable costs of bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

• Buildings	25-50 years
• Computers and related equipment	3- 5 years
• Motor vehicles	2-7 years
• Office furniture and equipment	7-10 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits from the use of the asset are expected. Any gain or loss arising on de-recognition of the asset is included in profit or loss in the year the asset is derecognized.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing, such as repairs and maintenance expenditure, of property and equipment are recognised in profit or loss as incurred.

G. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. These include properties with currently undetermined future use. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and impairment. Land is not depreciated.

The estimated useful life of building for the current and comparative periods is 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

H. Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'Trade and other payables'.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A lease term reflects the Company's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Company bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease, forthcoming changes in regulation and the future business plans of the Company to be effectively captured in the estimate of the lease term.

Policy applicable before 1 January 2019

(i) As a lessee

In the comparative period, the Company did not have leases classified as finance leases.

Assets held under other leases were classified as operating leases and were not recognised in the Company's separate statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

I. Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and receivables ("loans and receivables"). The Company reviews its loans and receivables, to assess impairment on a regular basis. A loan and receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and receivable and that event (or events) has had an impact on the estimated future cash flows of the loan and receivable that can be reliably estimated.

The Company considers evidence of impairment for loans and receivables at both an individual asset and a collective level. The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the loan and receivable in a Company of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's and receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

J. Provisions

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

K. Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(ii) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

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. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

(iii)Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

L. Interest income and expenses and fee and commission income

Interest income and expense are recognised in profit or loss as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan arrangement fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method. Other fee and commission income is recognised when the corresponding service is provided.

NOTE 25. New Standards and Interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 with earlier application permitted; however, the Company has not early adopted them in preparing these separate financial statements.

Of those standards that are not yet effective, IFRS 17 and IFRS 9 are expected to have a significant impact on the Company’s separate financial statements in the period of initial application.

IFRS 17 *Insurance Contracts*

IFRS 17 *Insurance Contracts* introduces an accounting model that measures groups of insurance contracts based on fulfilment cash flows and a contract service margin (CSM). The CSM is determined for Companys of insurance contracts. Insurers will need to account for their business performance at a more granular level. It brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer’s financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings. The insurer can choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income to reduce volatility. The reinsurance contract held is accounted for separately form the underlying direct contracts. IFRS 17 requires information to be disclosed at a level of granularity that helps users assess the effects of contracts have on financial positon, financial performance and cash flows.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021. Earlier adoption is permitted for entities that apply IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on or before the date of application of IFRS 17. Full retrospective approach is required, but expedients (such as modified retrospective approach and fair value approach) could be used. An insurer could apply different approaches for different Companys.

At its December 2018 meeting, the IASB voted to propose a narrow-scope amendment to IFRS 17. This follows the Board's tentative decision in November 2018 to propose a one-year deferral of IFRS 17's effective date to 2022. At its March 2020 meeting, the IASB decided to defer the effective date of IFRS 17 for another year to 1 January 2023. The Board also decided to extend the temporary exemption to IFRS 9, granted to insurers who meet specified criteria, to 1 January 2023.

Currently the Company is in the process of development of IFRS 17 implementation plan.

IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Business model assessment

The Company will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considered the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impact assessment

For the purpose of preparation of the additional disclosure required by IFRS 4 for insures applying temporary exemption from IFRS 9 the Company finalised the assessment of SPPI criteria. Based on assessment performed SPPI criteria is met for all debt financial assets not measured at FVTPL. The Company has not finalised the assessment of business models for managing the financial assets. Based on its preliminary assessment, the Company does not believe that the new classification requirements will have a material impact on its separate financial statements.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Insurance receivables are not within the scope of IFRS 9 impairment requirements.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Impact assessment

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Company has not finalised its methodology over ECL assessment.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities on the day of initial application of IFRS 9

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular about, credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves at transition to IFRS 9, when it becomes mandatory.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

All financial assets which are measured under IAS 39 at amortised cost meet SPPI test.

Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's separate financial statements:

– *Amendments to References to Conceptual Framework in IFRS Standards.*
– *Definition of a Business (Amendments to IFRS 3).*
– *Definition of Material (Amendments to IAS 1 and IAS 8).*

NOTE 26. Subsequent events

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a depreciation of the Georgian Lari. These developments are further increasing the level of uncertainty in the Georgian business environment. Management is in the process of estimating the impact of the facts and circumstances described above on the separate financial statements.