International Insurance Company IRAO JSC

Financial Statements
for 2019

Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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

This responsibility includes:

- preparation of financial statements in accordance with International Financial Reporting Standards;
- selection of suitable accounting policies and their consistent application;
- making judgments and estimates which are reasonable and prudent;
- preparation of the 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 financial statements for the year ended 31 December 2019 were approved by the management and signed on its behalf by:

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Vakhtang Dekanosidze
General Director
International Insurance Company IRAO JSC

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Ramaz Khvichia
Chief Financial Officer
International Insurance Company IRAO JSC

Date: 24 March 2020

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Independent Auditors' Report

To the Supervisory Board of International Insurance Company IRAO JSC

Opinion

We have audited the financial statements of International Insurance Company IRAO JSC (the "Company"), which comprise the statement of financial position as at 31 December 2019, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its 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 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 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 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 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 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 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 Financial Statements

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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

'000 GEL	Note	2019	2018
Gross premiums written		35,209	29,131
Less: written premiums ceded to reinsurers		(9,932)	(8,652)
Net premiums		**25,277**	**20,479**
Change in the gross provision for unearned premiums		(3,075)	(2,107)
Change in reinsurers' share in the gross provision for unearned premiums		537	328
Net earned premiums	5	**22,739**	**18,700**
Gross benefits and claims paid		(29,193)	(13,231)
Reinsurers' share of gross benefits and claims paid		13,788	449
Gross change in outstanding claims		18,741	(21,127)
Change in reinsurers' share in outstanding claims		(19,002)	21,016
Net claims	6	**(15,666)**	**(12,893)**
Subrogations and recoveries		651	501
Acquisition costs	7	(5,729)	(4,243)
Reinsurance commission income		1,662	1,755
Insurance activity result		**3,657**	**3,820**
Investment income	8	956	1,058
Interest expense		(218)	(274)
Administrative expenses	9	(2,981)	(2,353)
Net other operating expenses		(302)	(252)
Impairment loss of other assets		(319)	(238)
Result before the sale of investment in an associate		**793**	**1,761**
Loss from the sale of investment in an associate		(4,197)	-
(Loss)/profit before income tax		**(3,404)**	**1,761**
Income tax benefit	10	146	137
(Loss)/profit and total comprehensive (loss)/income for the year		**(3,258)**	**1,898**

These financial statements were approved on 24 March 2020 by:

Vakhtang Dekanosidze
General Director

Ramaz Khvichia
Chief Financial Officer

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 44.

’000 GEL	Note	31 December 2019	31 December 2018
ASSETS			
Property and equipment	11	4,876	4,862
Investment property	12	3,925	3,999
Intangible assets		553	509
Investment in associate	13	-	5,600
Deferred acquisition costs	7	2,205	1,588
Other assets	14	2,553	2,499
Reinsurer’s share of insurance contract provisions	18	12,897	31,362
Deferred tax asset	10	520	270
Insurance receivables	15	11,712	9,670
Placements with banks	16	12,382	9,732
Cash and cash equivalents	17	1,734	1,424
Total assets		**53,357**	**71,515**
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Liabilities			
Insurance contract liabilities	18	26,586	42,251
Loans and borrowings	19	6,865	7,500
Insurance and reinsurance payables	20	4,464	3,825
Other liabilities		1,676	915
Total liabilities		**39,591**	**54,491**
Equity			
Share capital	21	21,204	19,981
Accumulated losses		(7,438)	(2,957)
Total equity		**13,766**	**17,024**
Total liabilities and equity		**53,357**	**71,515**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 44.

’000 GEL	Note	2019	2018
Cash flows from operating activities			
Insurance premiums received		32,101	26,342
Reinsurance premiums paid		(6,853)	(5,492)
Claims and benefits paid		(27,735)	(12,101)
Reinsurance claims received		13,878	5
Subrogation and recoveries received		329	390
Acquisition costs paid		(4,253)	(4,212)
Commission, administrative and other expenses paid		(5,767)	(3,522)
Interest expense paid		(215)	(135)
Cash flows from operations		**1,485**	**1,275**
Cash flows from investing activities			
Net cash flows from sale of associate		1,403	-
Acquisition of property and equipment, investment property and intangible assets		(219)	(122)
Placements with banks		(12,050)	(10,293)
Withdrawals from banks		9,722	8,119
Interest received		820	662
Cash flows used in investing activities		**(324)**	**(1,634)**
Cash flows from financing activities			
Dividends paid		-	(542)
Repayment of borrowings		(928)	-
Cash flows used in financing activities		**(928)**	**(542)**
Net increase/(decrease) in cash and cash equivalents		**233**	**(901)**
Cash and cash equivalents at 1 January		1,424	2,330
Effect of movements in exchange rate on cash and cash equivalents		77	(5)
Cash and cash equivalents at 31 December	17	**1,734**	**1,424**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 44.

’000 GEL	**Share capital**	**Accumulated losses**	**Total**
Balance at 1 January 2018	17,281	(4,305)	12,976
Total comprehensive income			
Profit for the year	-	1,898	1,898
Total comprehensive income for the year	**-**	**1,898**	**1,898**
Increase in share capital	2,700	-	2,700
Dividends distribution	-	(550)	(550)
Balance at 31 December 2018	**19,981**	**(2,957)**	**17,024**

’000 GEL	**Share capital**	**Accumulated losses**	**Total**
Balance at 1 January 2019	19,981	(2,957)	17,024
Total comprehensive loss			
Loss for the year	-	(3,258)	(3,258)
Total comprehensive loss for the year	**-**	**(3,258)**	**(3,258)**
Increase in share capital	1,223	-	1,223
Dividends distribution	-	(1,223)	(1,223)
Balance at 31 December 2019	**21,204**	**(7,438)**	**13,766**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 44.

1 Background

(a) Principal activities

International Insurance Company IRAO JSC (the "Company"), as defined in the Civil Code of Georgia, was registered by LEPL National Agency of Public Registry on 12 March 2004. The Company is joint stock company as defined under the Law of Georgia on Entrepreneurs and the Company's registration number is 5/4-3848.

The Company's registered office is #88/15 Bochorishvili Street, Tbilisi 0160, Georgia.

The Company is licensed to provide life and non-life insurance services in Georgia. However, International Insurance Company IRAO JSC only offers insurance services in health, property and other non-life segments.

As at 31 December 2019 the Company had 7 branches from which it conducts insurance business throughout Georgia. At 31 December 2019 the Company employed 293 employees (31 December 2018: 237).

(b) 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 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.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* have been applied. Changes to significant accounting policies are described in Note 2(b). 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.

(b) Changes in accounting policies and presentation

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

Changes in presentation in the statement of cash flows

The Company considers placements in banks and respective interest received to represent cash flows from investing activities. In the statement of cash flows for 2019 cash flows from placements with bank 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.

Statement of cash flows **’000 GEL**	**2018** **As previously reported**	**Amount reclassified**	**As currently reported**
Cash flows (used in)/from operations	(237)	1 512	1,275
Cash flows from/(used in) investing activities	(122)	(1 512)	(1,634)

IFRS 16

The Company has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. Lessor accounting remains similar to previous accounting policies. The Company has 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 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The adoption of IFRS 16 did not have material impact on the Company’s financial statements.

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 new 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. It 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. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

Significant accounting policies

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, and subsequently at cost less any accumulated depreciation and impairment losses, 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.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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.

On transition to IFRS 16 no amounts were recognized as right of use assets and lease liabilities.

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 financial statements are presented.

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

4 Use of estimates and judgements

The preparation of 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 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 and 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
Liabilities connected with insurance within the scope of IFRS 4	***25,333***
Insurance provisions	25,333
Liabilities connected with insurance not within the scope of IFRS 4	***17,334***
Loans and borrowings for investments in clinics and property and equipment	11,313
Insurance payables	6,021
Total carrying amount of liabilities connected with insurance	**42,667**
Total carrying amount of liabilities	**44,885**
Percentage of the total carrying amount of Company's liabilities connected with insurance relative to the total carrying amount of all its liabilities	**95%**

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 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 within the next financial year is included in the following notes:

– Note 18 – Insurance contract liabilities; and
– Note 22 – Insurance risk management.

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.

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 23 – Financial risk management.

5 Premiums

2019 '000 GEL	Corporate medical insurance	Property insurance	Motor insurance (Casco)	MTPL	Other	Total
Gross premiums written	14,146	7,313	5,082	2,979	5,689	35,209
Change in the gross provision for unearned premiums	(1,085)	(465)	(688)	(105)	(732)	(3,075)
Gross earned premiums	**13,061**	**6,848**	**4,394**	**2,874**	**4,957**	**32,134**
Less: written premiums ceded to reinsurers	-	(6,791)	(70)	(34)	(3,037)	(9,932)
Change in reinsurers' share in the gross provision for unearned premiums	-	470	(73)	(30)	170	537
Ceded earned premiums	**-**	**(6,321)**	**(143)**	**(64)**	**(2,867)**	**(9,395)**
Net earned premiums	**13,061**	**527**	**4,251**	**2,810**	**2,090**	**22,739**

2018 '000 GEL	Corporate medical insurance	Property insurance	Motor insurance (Casco)	MTPL	Other	Total
Gross premiums written	12,288	6,554	4,047	2,443	3,799	29,131
Change in the gross provision for unearned premiums	(1,150)	(32)	(335)	(165)	(425)	(2,107)
Gross earned premiums	**11,138**	**6,522**	**3,712**	**2,278**	**3,374**	**27,024**
Less: written premiums ceded to reinsurers	-	(6,019)	(202)	(49)	(2,382)	(8,652)
Change in reinsurers' share in the gross provision for unearned premiums	-	123	(23)	(5)	233	328
Ceded earned premiums	**-**	**(5,896)**	**(225)**	**(54)**	**(2,149)**	**(8,324)**
Net earned premiums	**11,138**	**626**	**3,487**	**2,224**	**1,225**	**18,700**

6 Claims

2019 '000 GEL	Corporate medical Insurance	Property insurance	Motor insurance (Casco)	MTPL	Other	Total
Gross benefits and claims paid	11,071	13,596*	3,265	488	773	29,193
Reinsurance share of gross benefits and claims paid	-	(13,398)*	-	-	(390)	(13,788)
Claims settled, net of reinsurance	**11,071**	**198**	**3,265**	**488**	**383**	**15,405**
Change in provisions for reported but not settled claims	239	(19,010) *	(172)	(15)	329	(18,629)
Change in provisions for incurred but not reported claims	(112)	-	-	-	-	(112)
Change in reinsurers' share in outstanding claims	-	19,129*	-	-	(127)	19,002
Change in insurance contract provisions	**127**	**119**	**(172)**	**(15)**	**202**	**261**
Net claims incurred	**11,198**	**317**	**3,093**	**473**	**585**	**15,666**

2018 '000 GEL	Corporate medical Insurance	Property insurance	Motor insurance (Casco)	MTPL	Other	Total
Gross benefits and claims paid	9,351	525	2,436	364	555	13,231
Reinsurance share of gross benefits and claims paid	-	(322)	-	-	(127)	(449)
Claims settled, net of reinsurance	**9,351**	**203**	**2,436**	**364**	**428**	**12,782**
Change in provisions for reported but not settled claims	263	21,198	76	(4)	(450)	21,083
Change in provisions for incurred but not reported claims	44	-	-	-	-	44
Change in reinsurers' share in outstanding claims	-	(21,248)	-	-	232	(21,016)
Change in insurance contract provisions	**307**	**(50)**	**76**	**(4)**	**(217)**	**111**
Net claims incurred	**9,658**	**152**	**2,512**	**358**	**212**	**12,893**

*Significant increase in Gross benefits and claims paid and respective Reinsurance share, and decrease in Change in provisions for reported but not settled claims and respective Reinsurance share in *Property insurance* (LoBs) in 2019 year comparing to 2018 year is due to the one-off significant payment in 2019 for the claim that took place in 2018. The loss event is reinsured by 100%.

7 Acquisition costs

	2019 '000 GEL	2018 '000 GEL
Insurance commission expense	514	496
Other acquisition costs	5,832	4,211
Total acquisition costs	**6,346**	**4,707**
Change in deferred acquisition costs	(617)	(464)
Acquisition costs for the year	**5,729**	**4,243**

Analysis of movement in deferred acquisition costs

	2019 '000 GEL	2018 '000 GEL
Deferred acquisition cost at the beginning of the year	1,588	1,124
Change in deferred acquisition costs	617	464
Deferred acquisition costs at the end of the year	**2,205**	**1,588**

8 Investment income

	2019 '000 GEL	2018 '000 GEL
Interest income		
Loans issued	1	1
Placements with banks	577	406
Total interest income	**578**	**407**
Other investment income/(expenses)		
Net foreign exchange gain	200	244
Reversal of impairment losses on property and equipment and investment property	-	500
Loss on currency forward contract	(71)	(365)
Rent income	265	265
Other	(16)	7
Total other investment income	**378**	**651**
Total investment income	**956**	**1,058**

9 Administrative expenses

	2019 '000 GEL	2018 '000 GEL
Employee compensation	2,067	1,564
Regulatory fee	321	270
Legal and other professional fees	186	61
Depreciation and amortization	168	174
Office maintenance	165	208
Other administrative expenses	74	76
Total administrative expenses	**2,981**	**2,353**

The legal and other professional fees above include fees paid to the audit firm of about GEL 104 thousand for the provision of audit services.

10 Income tax

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

Current tax income	2019 '000 GEL	2018 '000 GEL
Adjustment for prior years	(104)	(36)
	(104)	(36)
Deferred tax expense		
Reversal of temporary differences	250	173
Total income tax benefit	**146**	**137**

Reconciliation of effective tax rate:

	2019 '000 GEL	2018 '000 GEL
(Loss)/profit before income tax	(3,404)	1,761
Income tax at the applicable tax rate	510	(264)
Change in unrecognised taxes	(255)	174
(Non-taxable income)/non-deductible expenses	(5)	263
(Under)/over provided in the prior year	(104)	(36)
	146	**137**

(a) Movement in temporary differences during the year

'000 GEL	1 January 2019	Recognized in profit or loss	31 December 2019
Assets			
Property and equipment	96	(50)	46
Tax loss carry-forward	174	300	474
Net deferred tax asset	**270**	**250**	**520**

'000 GEL	1 January 2018	Recognized in profit or loss	31 December 2018
Assets			
Property and equipment	(11)	107	96
Insurance and reinsurance receivables	25	(25)	-
Tax loss carry forward	83	91	174
Net deferred tax asset	**97**	**173**	**270**

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 Institutions '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.

Tax losses of GEL 4,857 thousand expire in 2022 out of which deferred tax asset was recognized for GEL 3,157 thousand. For the remaining part of the tax loss no deferred tax asset was recognized since the management believes that not sufficient taxable profits will be available to utilize such tax losses.

The deferred tax asset GEL 520 thousand was recognized to the extent that is probable that the Company will generate sufficient taxable profit until 1 January 2023, against which the deductible temporary differences can be utilised. The estimate of taxable profit until 1 January 2023 is based on historical profitability of the Company and forecasts of future earnings.

11 Property and equipment

'000 GEL	Land and buildings	Computers and software	Motor Vehicles	Furniture & equipment	Total
Cost					
At 1 January 2019	5,350	774	93	529	6,746
Additions	-	106	46	57	209
Disposals	-	(3)	(28)	(2)	(33)
At 31 December 2019	**5,350**	**877**	**111**	**584**	**6,922**
Depreciation					
At 1 January 2019	827	666	57	334	1,884
Depreciation charge	99	48	10	34	191
Disposals depreciation	-	(3)	(24)	(2)	(29)
At 31 December 2019	**926**	**711**	**43**	**366**	**2,046**
Net book value					
At 31 December 2019	**4,424**	**166**	**68**	**218**	**4,876**

'000 GEL	Land and buildings	Computers and software	Motor Vehicles	Furniture & equipment	Total
Cost					
At 1 January 2018	5,075	712	84	499	6,370
Additions	-	62	27	30	119
Disposals	-	-	(18)	-	(18)
Impairment reversal	275	-	-	-	275
At 31 December 2018	**5,350**	**774**	**93**	**529**	**6,746**
Depreciation					
At 1 January 2018	733	625	65	300	**1,723**
Depreciation charge	94	41	5	34	**174**
Disposals depreciation	-	-	(13)	-	**(13)**
At 31 December 2018	**827**	**666**	**57**	**334**	**1,884**
Net book value					
At 31 December 2018	**4,523**	**108**	**36**	**195**	**4,862**

In 2018, due to the change in USD/GEL exchange rate and stability in commercial property value in USD terms, the Company concluded that there is an indication that impairment recognised in prior years on buildings may be reversed. The Company assessed the recoverable amount of building based on the fair value less costs to sell of its building which resulted in an impairment reversal of GEL 275 thousand for the owner occupied part of the building and GEL 225 thousand for the part of the building which was classified as investment property.

The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties. The key assumption made by the expert related to the market price of one square meter of commercial area in the similar location and condition in the center of Tbilisi.
The significant unobservable inputs related to the differences in the characteristics of the buildings for which the expert applied 0% to 10% adjustments to observed asking or transaction prices.

Management did not identify any indicators of reversal of impairment recognized in prior years in 2019. Management estimates that the fair value of the land and building approximates to its carrying amount as at 31 December 2019.

Building with a carrying amount of GEL 4,016 thousand is pledged to secure borrowings received from the parent company as at 31 December 2019 (31 December 2018: GEL 4,107 thousand).

12 Investment property

	2019 '000 GEL	2018 '000 GEL
Cost		
At 1 January	3,999	3,843
Depreciation	(74)	(69)
Impairment reversal	-	225
At 31 December 2019	**3,925**	**3,999**

Management estimates that the fair value of the land and building included in investment property approximates its carrying amount. 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. The fair value was determined based on same market prices in recent transactions or announced asking prices of similar properties as described in note 11.

Investment property with a carrying amount of GEL 3,286 thousand is pledged to secure borrowings received from the parent company as at 31 December 2019 (31 December 2018: GEL 3,360 thousand).

13 Investment in associate

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**2019**	**2018**
Geo Hospitals LLC	Georgia	Medical service	0%	35%

In 2019 the Company fully disposed the shares in associate for GEL 1,656 thousand and assumed liabilities of GEL 253 thousand as a part of aforementioned transaction. The cost of investment in associate at the date of disposal amounted GEL 5,600 thousand and the Company incurred loss of GEL 4,197 thousand on the sale of investment in associate.

14 Other assets

	2019 '000 GEL	2018 '000 GEL
Receivables from subrogation	4,931	4,397
Profit tax paid in advance	63	134
Advances paid to employees	136	72
Accrued income on issued loan	11	10
Other	196	351
	5,337	**4,964**
Allowance for impairment	(2,784)	(2,465)
	2,553	**2,499**

Analysis of movements in the allowance for impairment

	2019 '000 GEL	2018 '000 GEL
Balance at the beginning of the year	2,465	2,227
Net charge for the year	319	238
Balance at the end of the year	**2,784**	**2,465**

15 Insurance receivables

’000 GEL	31 December 2019	31 December 2018
Receivables arising out of direct insurance operations	14,843	12,385
Allowance for insurance receivables	(3,131)	(2,715)
	11,712	**9,670**

Analysis of movements in the allowance for insurance receivables:

’000 GEL	2019	2018
Balance at the beginning of the year	2,715	2,892
Net charge/(reversal) for the year	416	(177)
Balance at the end of the year	**3,131**	**2,715**

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.

The Company creates allowance on insurance and reinsurance receivables based on their aging analysis. The Company also makes specific provision when facts and circumstances suggest that particular counterparty cannot pay.

The following table shows aging of insurance receivables as at 31 December 2019 and 2018:

GEL '000	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Not Past Due	10,355	-	8,814	-
Past due 0-30 days	936	-	687	-
Past due 31-60 days	224	(45)	73	(15)
Past due 61-90 days	153	(46)	59	(18)
Past due 91-120 days	70	(35)	29	(15)
Past due 121-365 days	237	(137)	126	(70)
Past due more the one year	2,868	(2,868)	2,597	(2,597)
	14,843	**(3,131)**	**12,385**	**(2,715)**

Management believes that the unimpaired amounts that are past due by less than 30 days are still collectable in full, based on historic payment behaviour.

16 Placements with banks

’000 GEL	31 December 2019	31 December 2018
Term deposits	**12,382**	**9,732**

The Company has term deposits of GEL 10,630 thousand at 31 December 2019 (2018: GEL 6,722 thousand) placed in banks with short term rating of B, based on Fitch ratings. Term deposits of GEL 1,752 thousand as at 31 December 2019 (31 December 2018: GEL 3,010 thousand) were held within top 10 banks in Georgia, which are not rated. The Company does not expect any counterparty to fail to meet its obligations.

As at 31 December 2019 the Company has placements in six large banks (31 December 2018: four large banks), whose balances exceed 10% of placements with banks. The gross value of these balances as at 31 December 2019 is GEL 11,989 thousand (31 December 2018: GEL 8,172 thousand).

As at 31 December 2019 and 31 December 2018 none of the placements with banks are impaired or past due.

17 Cash and cash equivalents

’000 GEL	**31 December 2019**	**31 December 2018**
Petty cash	29	32
Current accounts with banks	1,705	1,392
Total cash and cash equivalents	**1,734**	**1,424**

The cash and cash equivalents 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.

As at 31 December 2019 the Company has current account in two large banks (31 December 2018: one large bank), whose balance exceed 10% of cash and cash equivalents. The gross value of these balances as at 31 December 2019 is GEL 1,620 thousand (31 December 2018: GEL 1,094 thousand).

As at 31 December 2019 and 31 December 2018 none of cash and cash equivalents is impaired or past due.

18 Insurance contract liabilities

	2019 ’000 GEL			**2018 ’000 GEL**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Unearned premiums	15,175	(4,151)	11,024	12,100	(3,614)	8,486
Incurred but not reported	162	-	162	274	-	274
Notified claims provision	11,249	(8,746)	2,503	29,877	(27,748)	2,129
Total insurance contract provisions	**26,586**	**(12,897)**	**13,689**	**42,251**	**(31,362)**	**10,889**

(a) Analysis of movements in provisions for unearned premiums (gross of reinsurance)

’000 GEL	**2019**	**2018**
Balance at 1 January	12,100	9,993
Gross premiums written (Note 5)	35,209	29,131
Gross earned premiums (Note 5)	(32,134)	(27,024)
Balance at 31 December	**15,175**	**12,100**

(b) Analysis of movements in claims provisions (gross of reinsurance)

’000 GEL	**2019**	**2018**
Balance at January 1	30,151	9,025
Expected cost of current year claims	15,619	38,987
Change in estimates in respect of prior year claims	(6,620)	(5,816)
Claims paid during the year (excluding claims handling costs)	(27,739)	(12,045)
Balance at December 31	**11,411**	**30,151**

(c) Assumptions and sensitivities

(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.

19 Loans and borrowings

	2019 GEL'000	2018 GEL'000
Secured parent company loan	**6,865**	**7,500**

a) Terms and repayment schedule

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2019 Face value	31 December 2019 Carrying amount	31 December 2018 Face value	31 December 2018 Carrying amount
Secured parent company loan	EUR	3%+3 Month EURIBOR	2021	6,865	6,865	7,500	7,500
				6,865	**6,865**	**7,500**	**7,500**

b) Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 GEL	Loans and borrowings	Total
Balance at 1 January 2019	**7,500**	**7,500**
The effect of changes in foreign exchange rates	303	303
Interest expense	205	205
Interest paid	(215)	(215)
Repayment of borrowings	(928)	(928)
Balance at 31 December 2019	**6,865**	**6,865**

'000 GEL	Loans and borrowings	Total
Balance at 1 January 2018	**10,382**	**10,382**
The effect of changes in foreign exchange rates	(295)	(295)
Transfer to capital	(2,700)	(2,700)
Other changes		
Interest expense	248	248
Interest paid	(135)	(135)
Balance at 31 December 2018	**7,500**	**7,500**

(c) Waiver

According to the loan agreement in case the Company dispose shares in Geo Hospitals LLC, the outstanding loan has to be paid in full. In 2019 the Company fully disposed the shares in associate, accordingly the balance of loans and borrowings is on demand as at 31 December 2019. Subsequent to the reporting date the Management obtained waiver, according to which the parent company will not request the Company to pay back the loan after the sale of its shares in Geo Hospitals LLC. Accordingly, the loans and borrowings balance is expected to be settled in accordance with contractual schedule.

20 Insurance and reinsurance payables

	2019 '000 GEL	2018 '000 GEL
Agents' and brokers' fees payable	6	19
Reinsurance premiums payable	4,458	3,806
	4,464	**3,825**

21 Equity

(a) Share capital

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**	**Number of shares**	**Par Value GEL**
Ordinary shares	21,204,383	1	19,981,250	1

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

In 2019 the share capital increased by GEL 1,223 thousand through conversion of dividends (2018: the share capital increased by GEL 2,700 thousand through conversion of loan from parent).

(b) Dividends

During 2019, the Company declared dividends of GEL 1,223 thousand to its shareholders which was converted into share capital. In 2018 the Company declared and paid dividends of GEL 550 thousand. Declared dividends per share amounted GEL 0.058 and GEL 0.027 in 2019 and 2018, respectively.

22 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.

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.

(i) Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company mainly buys proportional, facultative and Excess-of-Loss ("XL") based reinsurance to reduce the net exposure to the Company to 3% of equity for every individual contract or in other specified circumstances. The Company also buys reinsurance treaties for the main lines of its business that protect the Company from any cumulative losses that may arise from multiple claims resulting from the same event or occurrence.

Ceded reinsurance contains credit risk, and such reinsurance recoverable are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an on-going basis and reviews its reinsurance arrangements periodically.

The Company does not utilize any stop-loss reinsurance.

(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.

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.

(ii) 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.

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

The key risks associated with this product are underwriting risk, competitive risk and claims experience risk (including the variable incidence of natural disasters). The Company is also exposed to the risk of exaggeration and dishonest action by claimants.

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. The Company uses strict underwriting criteria to ensure that the risk of losses is acceptable to the Company. The Company reinsures its property risks by way of excess of loss treaties, which limit the Company's exposure to EUR 35 thousand for each property policy.

(iii) Motor insurance

Product features

The Company has two types of Motor insurance, fully comprehensive insurance ("Casco") and motor third party liability insurance ("MTPL"). 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 estimations 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. The Company reinsures its motor risks by way of excess of loss treaties, which limit the Company's exposure to ultimate net loss for each and every loss occurrence from EUR 35 thousand.

(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.

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography.

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 motor, property and other business. The Company assesses the costs and benefits associated with the reinsurance programme on an on-going basis.

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) Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company’s evaluation of the specific risk, but in any event does not exceed 3% of equity for any policy.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer the Company considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed from public rating information and from internal investigations.

(e) 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 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 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

Accident year **Estimate of cumulative claims**	**2015** **GEL'000**	**2016** **GEL'000**	**2017** **GEL'000**	**2018** **GEL'000**	**2019** **GEL'000**	**Total** **GEL'000**
Accident year	17,322	27,920	16,364	38,987	15,619	15,619
One year later	16,949	27,875	16,162	32,669		32,669
Two years later	16,690	27,645	16,168			16,168
Three years later	16,675	27,544				27,544
Four years later	16,469					16,469
Current estimate of incurred claims	**16,469**	**27,544**	**16,168**	**32,669**	**15,619**	**108,469**
Cumulative claims paid up to 31.12.2019	**16,437**	**27,446**	**15,828**	**24,850**	**12,497**	**97,058**
Gross outstanding claims liabilities	**32**	**98**	**340**	**7,819**	**3,122**	**11,411**

23 Financial risk management

Management of risk is fundamental to the insurance business and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, which includes interest rate and currency risks, credit risk and liquidity risk.

(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.

(b) Risk management policies and procedures

The Company's risk management policies aim to identify, analyze and manage the risks faced by the Company, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Company through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Management also seeks to engage in currency forward contracts, to minimize its exposure to currency risk (see note 23 (c)(ii)).

The Supervisory Board of the Company has overall responsibility for the oversight of the risk management framework. The 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.

Both external and internal risk factors are identified and managed throughout the Company's organizational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures.

(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 such as foreign exchange rates and interest rates.

Market risk comprises currency risk and interest rate risk.

Market risk arises from open positions in interest rate, currency and financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

(i) 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 table below displays the Company's interest bearing assets and liabilities as at 31 December 2019 and 2018 and their corresponding average effective interest rates as at that dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value 2019 '000 GEL	Average effective interest rate 2019 '000 GEL	Value 2018 '000 GEL	Average effective interest rate 2018 '000 GEL
Interest bearing assets and liabilities				
Fixed interest				
Loans issued				
-GEL	8	12%	8	12%
Placements with banks (excluding interest receivable)				
-GEL	6,583	11%	3,240	12%
-USD	229	4%	195	4%
-EUR	5,328	2%	6,125	2%
Variable interest				
Loans and borrowings				
-EUR	6,865	3%	7,500	3%

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

An analysis of sensitivity of the Company's projected net income for the year and equity to interest rate re-pricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 31 December 2018 is as follows:

	2019 GEL '000	2018 GEL '000
100 bp parallel increase	69	75
100 bp parallel decrease	(69)	(75)

(ii) 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 uses 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 concludes the agreement and hedges its EURO OCP. During 2019, the Company hedged its EURO OCP as follows:

- Nominal value of EUR 400 thousand against USD, from 16 January 2019 to 31 December 2019.

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 ’000 GEL**	**EUR ’000 GEL**
Assets		
Other assets	61	-
Insurance receivables	4,988	263
Placements with banks	238	5,375
Cash and cash equivalents	32	580
Reinsurer's share of insurance contract provisions	8,396	1
Total assets	**13,715**	**6,219**
Liabilities		
Insurance contract liabilities	9,146	9
Insurance and reinsurance payables	2,938	414
Other liabilities	105	588
Loans and borrowings	-	6,865
Total liabilities	**12,189**	**7,876**
Net position as at 31 December 2019	**1,526**	**(1,657)**

31 December 2018	**USD ’000 GEL**	**EUR ’000 GEL**
Assets		
Other assets	894	13
Insurance receivables	4,470	180
Placements with banks	203	6,165
Cash and cash equivalents	27	309
Reinsurer's share of insurance contract provisions	27,581	73
Total assets	**33,175**	**6,740**
Liabilities		
Insurance contract liabilities	28,303	41
Insurance and reinsurance payables	3,356	-
Other liabilities	30	434
Loans and borrowings	-	7,500
Total liabilities	**31,689**	**7,975**
Net position as at 31 December 2018	**1,486**	**(1,235)**

A reasonably possible strengthening (weakening) of GEL without hedges, 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:

	2019 GEL’000	**2018 GEL’000**
10% appreciation of USD against GEL	130	126
10% depreciation of USD against GEL	(130)	(126)
10% appreciation of EUR against GEL	(141)	(105)
10% depreciation of EUR against GEL	141	105

(d) Credit risk

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

	31 December 2019 GEL'000	31 December 2018 GEL'000
Placements with banks	12,382	9,732
Reinsurer's share of insurance contract provisions *	8,746	27,748
Insurance receivables	11,712	9,670
Receivables from subrogation	2,147	1,932
Cash and cash equivalents	1,705	1,392
Total credit risk exposure	**36,692**	**50,474**

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

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.

The Company also has insurance and other receivable balances subject to credit risk. The most significant of these balances are premiums and subrogation receivables. To mitigate the risk of policyholders not paying amounts due, all issued policies contain provisions that cancel the policy in the event of non-payment of the premium on the due date. Credit risk is also mitigated through strict underwriting criteria. For the insurance receivables aging, see Note 15.

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.

To mitigate the credit risk of placements with banks, the Company invests its funds with the top Georgian banks.

The Company's exposure to credit risk is monitored on an ongoing basis.

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Company's liquidity positions are reviewed by the management on a daily basis.

The following tables show the undiscounted cash flows on financial liabilities on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability.

31 December 2019	**Less than 1 year ’000 GEL**	**1 year to 5 years ’000 GEL**	**Total gross amount outflow ’000 GEL**	**Carrying amount ’000GEL**
Liabilities				
Loans and borrowings	1,256	5,972	7,228	6,865
Insurance and reinsurance payables	4,464	-	4,464	4,464
Other liabilities	1,677	-	1,677	1,676
31 December 2019	**7,397**	**5,972**	**13,369**	**13,005**

31 December 2018	**Less than 1 year ’000 GEL**	**1 year to 5 years ’000 GEL**	**Total gross amount outflow ’000 GEL**	**Carrying amount ’000GEL**
Liabilities				
Loans and borrowings	1,556	6,545	8,101	7,500
Insurance and reinsurance payables	3,825	-	3,825	3,825
Other liabilities	915	-	915	915
31 December 2018	**6,296**	**6,545**	**12,841**	**12,240**

Loans and borrowings are on demand (see Note 19), however subsequent to the reporting date the Management obtained waiver, according to which the parent company will not request accelerated payment of loan balance. Accordingly, the loans and borrowings are included in the table above in accordance with their original contractual schedule.

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

24 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; and
- 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 Investment and Risk Strategy (“IRS"), 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 is 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 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 is the transitional period for the implementation of the directives, the adherence requirements to the above are as follows:

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

25 Contingencies

(a) Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(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. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Control relationships

The Company's parent company is ATBIH GmbH (formerly TBIH Financial Services Group N.V.), which is controlled by VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna. The party with the ultimate control over the Company is Wiener Stadtische Wechselseitiger Versicherungsverein – Vermogensverwaltung – Vienna Insurance Group, Vienna.

(b) Transactions with the members of the Supervisory Board and Management Board

Total remuneration of the Supervisory Board and Management Board included in administration expenses is as follows:

	2019 '000 GEL	2018 '000 GEL
Members of Supervisory Board and Management Board	778	607
Salary related taxes	218	152
Total remuneration	**996**	**759**

(c) Transactions with other related parties

Transactions with other related parties include transactions with associate and companies related to the parent company of the Company.

The outstanding balances and transactions as at and for the year ended 31 December 2019 and 2018 with other related parties are as follows:

Statement of financial position	31 December 2019 '000 GEL	31 December 2018 '000 GEL
Assets		
Insurance receivable (fellow subsidiary)	83	78
Insurance and reinsurance receivable (associate)	-	35
Liabilities		
Loans and borrowings (parent)	6,865	7,500
Insurance and reinsurance payables (fellow subsidiary)	1,962	1,070
Other liabilities (fellow subsidiary)	504	238
Insurance and reinsurance payables (intermediate parent)	-	534
Other liabilities (intermediate parent)	484	-

Statement of profit or loss and other comprehensive income	2019 '000 GEL	2018 '000 GEL
Written premium ceded to reinsurers (fellow subsidiary)	(9,057)	(2,584)
Written premium ceded to reinsurer (intermediate parent)	(306)	(1,338)
Interest expense (parent and intermediate parent)	(205)	(248)
Gross premium written (associate)	-	79
Claims paid (associate and fellow subsidiary)	-	(2)
Claims paid (fellow subsidiary)	(362)	(394)
Other expense (intermediate parent)	(122)	(115)
Forward agreement income/(expense) (fellow subsidiary)	-	(237)
Rent income (fellow subsidiary)	264	265

27 Basis of measurement

The financial statements are prepared on the historical cost basis.

28 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except if mentioned otherwise (see Note 2(b)).

(a) 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.

(b) 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 and exclude taxes and levies based on premiums. 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 claims incurred comprise claims paid during the financial year 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 unpaid at the statement of financial position date, whether reported or not, and provisions for related external claims handling expenses.

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 changes in external claims handling expenses, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Anticipated reinsurance and subrogation recoveries are recognised separately as assets. Reinsurance and subrogation 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 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 for the purpose of limiting its potential net loss through the partial transfer of risk to reinsurers. 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 statement of financial position on a gross basis.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurance are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Premiums on reinsurance assumed are recognised as revenue and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

(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.

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, as well as investment income from assets backing such liabilities, are used. If a shortfall is identified the related deferred acquisition cost and related intangible assets are 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 and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets. The Company reviews its insurance receivables to assess impairment on a regular basis.

(c) 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.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) 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 comprise the following classes of financial assets:

- Insurance receivables as presented in note 15;
- 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.

Other financial assets and financial liabilities are carried at amortised cost in the statement of financial position.

(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 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.

(e) Property and equipment

(i) Recognition and measurement

Items of property and equipment, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net in profit or loss.

(ii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of significant items of property and equipment for the current and comparative periods are as follows:

- Buildings 50 years
- Office and computer equipment 3 – 10 years
- Vehicles 5 – 10 years
- Others 5 – 7 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) 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 accumulated depreciation and any impairment. Land is not depreciated.

The estimated useful life of investment properties 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 a 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.

(g) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are five to seven years.

(h) 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 these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics. 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.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. 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.

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.

(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.

(i) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(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 from 1 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.

Other fee and commission income is recognised when the corresponding service is provided.

(m) Leases

The Company has adopted IFRS 16 Leases from 1 January 2019. The Company chooses to use a single, on-balance sheet accounting model for lessees. Lessor accounting remains similar to previous accounting policies. The details of accounting policy are disclosed in note 2(b) (changes in accounting policies).

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, at inception of an arrangement, the Company determined whether such an arrangement is or contained a lease. This was the case if the fulfilment of the arrangement was dependent on the use of a specific asset and the arrangement conveyed a right to use the asset.

(i) As a lessee

The Company did not have finance leases in comparative period.

Assets held under other leases were classified as operating leases and were not recognised in the Company's 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.

29 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 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 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 groups 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 groups.

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 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.
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- 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 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).*

30 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 their financial statements, however management does not expect material decline in gross premiums written and profit.