JSC PSP Insurance

Consolidated Financial Statements

With the Conclusion of the Independent Auditor

For the year, ended on December 31, 2018

Content:

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Conclusion of the independent auditor

To: Shareholders and management of JSC "PSP Insurance" Group

The auditor's conclusion on consolidated financial statements

Consideration

We have conducted the consolidated financial statements audit of JSC PSP Insurance and its affiliated company New Clinic Ltd (hereinafter referred to as the Group), which consists of consolidated financial statement as of December 31, 2018, as well as consolidated activity results, consolidated reporting of own capital movement and consolidated reporting of funds movement for the reporting year, that ended on the mentioned date and attached comments, including important reporting policies.

In our opinion, the submitted consolidated financial statement, envisaging all essential aspects, reflects the consolidated financial state of the Group as of December 31, 2018, as well as the consolidated financial results of its activity, consolidated movement of own capital and consolidated movement of funds for the reporting year, that ended on the mentioned date, in accordance with the international standards of financial reporting.

Grounds for consideration

We have conducted the audit in accordance with the Audit International Standards. Our responsibility envisaged under the mentioned standards, is described in the conclusion part – "Auditor's responsibility on financial statements audit". We are independent from the group, which implies the compliance with the requirements of "the Ethic's Code of Professional Accountants" issued by "International Council of Standards of Accountants' Ethics" and moreover, we carry out other ethic liabilities defined by this code.

We believe, that audit evidences obtained by us are enough and proper for the expression of our opinion for establishing the necessary grounds.

Responsibility on financial statements for persons with the right of management.

The management is responsible for the preparing of the consolidated financial statement and fair presentation in accordance with the financial statement reporting international standards, as well as for the internal control, which is considered by the management necessary for the preparing of the financial statement, which does not include the essential inaccuracy caused by cheating or mistake.

For preparing the consolidated financial reporting the management is obliged to evaluate the continuity of the group activity and provide the issues related to the continuity of the activity. Also, the statement on the permission of the activity continuity shall be prepared, if it is not going to suspend or liquidate the group operations.

The persons authorized with the rights of management are responsible to perform supervision of the group's financial reporting process.

Responsibility of the auditor for the financial reporting audit

Our goal is to take the reasonable belief whether the given consolidated financial statement in general consists of cheating or the inaccuracy caused by the mistake or not and to issue the conclusion, which includes our opinion. Reasonable belief is the high level of the belief, but it does not represent the guarantee of the fact that the audit conducted in accordance with the audit international standards always is available to reveal the essential inaccuracies.

Inaccuracies may arise as a result of the cheating or mistake and are considered as essential, if the reasonable expectation exists of the fact that it can influence separately or together on the economic decision of the users, which may be taken on the basis of the present financial statement.

According to Audit International Standards we use professional discussion and keep the professional skepticism. We also:

- Establish and evaluate the risks of making essential inaccuracies as a result of cheating or mistakes in the financial statement, plan and accomplish the auditory procedures with the purpose of the reaction on these risks and acquire auditory evidences, which are enough and proper for the expression of our opinions for creation of the needed grounds. The risk of non-establishment of the essential inaccuracy created as a result of the cheating is higher than the essential inaccuracy caused by mistake, as the cheating may include invisible bargains, counterfeits, deliberate skipping of the information, incorrect provision of the information or spurning of internal control;

- Study the internal control important for the audit in order to plan the auditory procedures proper for the specific circumstances and not for the purpose to express our opinion on the efficiency of the group's control;
- Evaluate the expediency of used accounting policies, as well as the reasonability of accounting estimates and explanatory notes presented by the management;
- Make a conclusion on advisability of using accounting basics of the current enterprise by the management, as well as make findings based on the received auditory evidences whether there is a substantial ambiguity in relation with the events and circumstances that may suspect the group's ability to continue functioning with the continuous functioning of the enterprise. If we conclude that there is substantial uncertainty, we will focus on the information in the financial statements of our auditors, or if such information is inadequate, we will change our conclusion. Our discussions are based on audit evidence obtained before the date of the conclusion of our auditors' report. In addition, the events that emerged in the future and created circumstances may force the group to stop functioning under the continuous functioning of the enterprise;
- Evaluate the general presentation of financial statements, its structure and content, including explanatory notes, and whether financial statements reflect the main transactions and developments in such a manner as to ensure the integrity of the entire document.
- Get enough audit evidence of group financial information and activities in order to express our views on financial statements. We are responsible for the direction, supervision and performance of the audit. We are only responsible for our audit.

Along with other issues we communicate with people with management rights on important issues that have been identified as a result of the audit scale, terms and audit, including internal deficiencies of the internal control.

Partner of the transaction is responsible for the audit results in this conclusion of the Independent Auditor:

Ivane Zhuzhunashvili (Registration N in the Registry: # SARAS-A-720718)

On behalf of BDO LLC

Tbilisi, Georgia

April 15, 2019

Signed

JSC PSP

Full income consolidated reporting

For the reporting year that ended on December 31, 2018

(in GEL)

	Note	2018	2017
Acquired premium		19,468,238	30,581,288
Share of the Reinsurer in the acquired premium		(1,025,732)	(118,567)
Net acquired premium		**18,442,506**	**30,462,721**
Change in unearned premium reserve		(921,284)	(298,110)
In the changes of unearned premium reserve Share of the Reinsurer		274,512	106,800
Net earned premium	4	**17,795,734**	**30,271,411**
Commission income	5	187,805	2,942
Total income		**17,983,539**	**30,274,353**
Insurance losses and change in insurance liabilities related to losses		(14,559,364)	(30,958,298)
Reinsurer's share in insurance liabilities related to insurance losses and changes		551,441	150
Net insurance losses	6	**(14,007,923)**	**(30,958,148)**
Acquisition costs		(96,480)	(21,247)
Marketing and administration costs	7	(3,918,378)	(4,132,324)
Impairment loss	8	(489,920)	(226,614)
Other costs		(24,055)	(128,640)
Loss from operating activities		**(553,217)**	**(5,192,620)**
Interest income	9	683,816	615,059
Profit/(loss) earned from difference between exchange rate, net	10	155,945	(93,081)
Profit/(loss) before tax		**286,544**	**(4,670,642)**
Profit tax benefit	11	257,691	-
Total full year income/(loss)		**544,235**	**(4,670,642)**

Consolidated financial statements on behalf of the management are approved by the following persons on April 15, 2019:

Director General S. Lebanidze

Chief Accountant N. Tkemaladze

The explanatory notes on pages 9-37 are an integral part of consolidated financial statements.

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JSC PSP

Consolidated reporting of financial state

As of December 31, 2018
(in GEL)

	Note	31.12.2018	31.12.2017
Assets			
Capital assets	12	220,145	211,430
Intangible assets		12,246	17,093
Deferred acquisition costs		48,160	37,052
Deferred income tax asset	11	257,691	-
Reinsurance assets	13	536,796	106,800
Pre-paid taxes	14	93,554	53,109
Supplies		21,507	28,872
Requirements from insurance and reinsurance	15	6,294,621	5,949,665
Other assets	16	272,161	133,315
Deposits placed in banking institutions	17	10,523,297	7,888,418
Cash and cash equivalents	18	3,481,727	8,665,863
Total assets		**21,761,905**	**23,091,617**
Own capital			
Equity capital		22,450,000	22,450,000
Accumulated losses		(12,321,879)	(12,866,114)
Total own capital		**10,128,121**	**9,583,886**
Liabilities			
Liability originated from insurance contracts	13	10,132,235	11,447,622
Other insurance liabilities	19	1,279,912	208,963
Deferred commission income	20	95,328	26,700
Other liabilities	21	126,309	1,824,446
Other liabilities		**11,633,784**	**13,507,731**
Total own capital and liabilities		**21,761,905**	**23,091,617**

The explanatory notes on pages 9-37 are an integral part of consolidated financial statements.

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JSC PSP

Consolidated reporting of own capital movement

For the reporting year that ended on December 31, 2018

(in GEL)

	Equity capital	Acquired loss	Total
Balance as of December 31, 2016	14,000,000	(8,195,472)	5,804,528
Increase of equity capital	8,450,000	-	8,450,000
Total full year loss		(4,670,642)	(4,670,642)
Balance as of December 31, 2017	22,450,000	(12,866,114)	9,583,886
Total full year income	-	544,235	544,235
Balance as of December 31, 2018	22,450,000	(12,321,879)	10,128,121

The explanatory notes on pages 9-37 are an integral part of consolidated financial statements.

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Consolidated reporting of cash flows

For the reporting year that ended on December 31, 2018

(in GEL)

	Note	2018	2017
Cash Flows from operating activities			
Gained insurance premium		17,616,887	29,549,444
Income from regression and surviving property		40,715	75,919
Other earnings		53,784	142,838
Compensated losses		(16,297,048)	(28,316,926)
Paid salaries		(2,072,944)	(2,439,164)
Paid leasing fee		(1,014,061)	-
Paid taxes, except the profit tax		(594,000)	(591,000)
Commission fees paid to agents and brokers		(66,028)	(3,260)
Paid reinsurance premium		(37,712)	-
Other outflow from operating activities		(953,623)	(824,204)
Net cash flows used in operating activities		**(3,324,030)**	**(2,406,353)**
Funds for investment activities			
Acquisition of fixed assets and intangible assets		(71,529)	(14,131)
Gained interests		629,572	618,498
Increase of deposits in banking institutions		(2,438,135)	(340,841)
Other outflows from investment activities		-	(18,237)
Net cash flows used in investment activities		**(1,880,092)**	**245,289**
Funds from financial activities			
Increase of capital		-	8,450,000
Net cash flows from financial activities		-	**8,450,000**
Effect of currency exchange changes on cash and cash equivalents		19,986	(712)
Net increase and/(reduction) of cash and cash equivalents		**(5,204,122)**	**6,288,224**
Cash and cash equivalents, January 1	18	**8,665,863**	**2,377,639**
Cash and cash equivalents, December 31	18	**3,481,727**	**8,665,863**

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Descriptive and explanatory feedback on consolidated financial statement

By the end of financial year ended on 31 December, 2018

(In Gel)

1. General Information

PSP Insurance (hereinafter as Company) was registered on 22 August, 2007 in Tbilisi by the Tax Inspection, ID number #203545572, legal address: Pushkin str.3, Old Tbilisi district, Tbilisi, in accordance with the law of Georgia on Insurance, dated December 18, 2015, PSP Insurance changed legal form and became JSC "PSP Insurance". Company does not represent a taxpayer. As of 31 December, 2017, a citizen of Georgia - Kakhaber Okriashvili is the founder and in charge of the company, who owns 100% shares of the company.

Main activity of the company is insurance service in addition to the reinsurance service.

"New Clinic" Ltd (hereinafter as – affiliated company) is a company that is owned by JSC "PSP Insurance" by 100%. The company was founded on 10 February, 2012, legal address: D. Agmashenebeli ave.15, Old Tbilisi District, Tbilisi, Georgia. Company ID number – 404415753. Main activity of "New Clinic" Ltd is medical service.

2. Overview of important financial accounting policy of the group

Find bellow the main accounting policy applied during preparation of consolidated financial statement.

2.1. Grounds for submission

Consolidated financial statement has been prepared in accordance with the international standards of financial reporting and interpretations (IFRSs) issued by International Accounting Standards Committee (IASC) and interpretations. Consolidated financial statement is prepared based on the historical value. Financial timeline covers the fiscal year from 1 January to 31 December.

Preparation of consolidated financial statement in accordance with IFRSs assumes that the group directors will provide certain evaluations that will affect financial value of assets and liabilities by the time when consolidated financial statement is being prepared, moreover, it will have an influence on the amount of income and expenses during the reporting period. Feedback on important financial evaluations are provided in note N 3.

Consolidation

Affiliated companies are enterprises, structural entities that are controlled by the group (1) as far as it is authorized to carry out activities of enterprise it has invested in, which affects its profitability, (2) is capable and is authorized to change the revenue performance in the enterprise by its participation and (3) is capable of using its power over invested enterprise and have an influence on the profitability of the investor.

When assessed whether the group has control over the company it has invested in, existence of important rights is taken into account, one of which is the right of potential vote. Investor has the key right over the enterprise it has made investment in when it enjoys the practical right and is able to use it in the decision-making process regarding definition of directions of activities of the affiliated company. The group might affect the enterprise it has made investment in also in case when it owns less than majority votes.

Results and balance of intra-group economic operations as well as unspent profit as a result of intra-group transactions is eliminated for the purpose of consolidation.

JSC "Insurance PSP" and its affiliated company "New Clinic" Ltd utilizes united accounting policy, which is in line with the group policy.

2. Overview of important financial accounting policy of the group (*continued*)

2.2 Acceptance of new IFRSs, changes in interpretations and standards

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a) New standards, interpretations and changes issued and valid since 1 January 2018

IFRS 15 – income as a result of contracts with clients. IFRS 15 that was issued in May, 2014, offers the entrepreneurs unified, complete model of income as a result of contracts with clients.

After it becomes valid IFRS will replace the recognized principle of revenue, IAS 18 among them – revenues. IAS 11 - building contracts and related interpretations. According to the IFRS 15 key principle the individual ha to recognize the revenue in a way when the issue or provision of goods or the services wo the client is reflected by the money, which reflects the payment, the receipt of which the individual assumes in replacement of this good or service. Specifically, the standard offers unified five-phase model based on one principle in relation to all contracts drawn up with the clients:

- Identification of the contract with the client;
- Determination of contractual liabilities;
- Determination of transaction value;
- Assigning transaction value to contractual liability;
- Recognition of revenue in case when (or if) an individual complies with the contractual liability.

In accordance with IFRS 9, the enterprise recognizes the revenue in the process of carrying out its contractual liabilities, namely when the client is granted "control" over goods or services in terms of a related liability. A more directive instruction has been added to the themes such as, for instance – the moment of revenue recognition, keeping records of variable payment, expenses related to contract receipt or implementation, etc. Besides, new requirements are introduced regarding revenue definition; Group management does not anticipate that the application of above-mentioned amendments will have a significant influence over consolidated financial accounting of the group.

IFRS 9 – financial instruments – IFRS 9 introduces new requirements in relation to recognition, classification and measurement of financial assets. In July, 2014 International standards council of accounting published the final version of IFRS 9. It will replace IAS 39 related to classification and measurement of financial instruction. IFRS 9 is retained, but it simplifies the mixed measurement model and introduces three main categories for financial assets: depreciable value in the other complete revenue and real value in profit and loss.

Classification of financial assets depends on the business model of the organization and characteristics of movement of contractual monetary means of financial assets. Investments partially in instruments are measured by real value in profit and loss. Besides, according to IFRS 9, an individual is able to irreversibly submit the retrospective changes of investment fair value in the capital of another complete revenue. The model – "expected credit loss" in relation to measurement of devaluation of financial assets has been introduced in IFRS 9, which is the opposite of IAS 39 credit loss model. Financial liabilities are classified and measured according to IAS 39, related to liabilities reflected bin profit and loss through real value.

New model of hedging has been introduced in IFRS 9, which suits better the risk management characteristics of organization during financial or nonfinancial risk influence while hedging. IFRS 9 offers for the organization a better approach to hedging transaction types. Specifically, the range of instruments classified as hedging instruments has expanded. Besides, efficiency test was annulled and has been replaced by the principle of "economic relations". Moreover, it is no longer required to evaluate retrospectively hedging efficiency. Requirements for organization in relation to risk management related descriptive notes have increased.

2. Overview of important financial accounting policy of the group (*continued*)

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The standard became mandatory since 1 January, 2018. According to changes in IFRS 4 the group uses the exception IFRS 9 that is permitted, as a group the main activity of which is related to insurance, in accordance with the IFRS 4. The permitted assumption is – rescheduled approach. It is voluntary to utilize this change; the group can stop using this change until the new standard becomes valid. According to the above-mentioned approach the group uses IAS 39 instead of IFRS 9 in the reporting period that starts before 1 January, 2021, since it had not used IFRS 9 before that time.

b) Newly issued standards, interpretations and amendments which are not yet valid:

IFRS 16 - lease – IFRS 16 lease will replace the existing methodological characteristics: IAS 17 leasing; it has to be determined whether IFRIC 4 leasing is covered by the contract, SIC – 15 operation leasing – stimulating and SOC 27 assessment of transaction content, which entails legal for of lease. It annuls the current double principle of accounting for leaseholder, which differentiates financial leasing reflected on the balance and records the operation leasing on the balance. Instead of this, one model remains to record the balance, which resembles current financial leasing principle. Leasing principles remains to be in accordance with the relevant practice, i.e. the lease-granter keeps on classification of leasing as financial or operational. IFRS 16 is valid within each reporting period that starts on 1 January 2019 or after the mentioned date. It is permitted to accept it before this date in case the revenue of IFRS15 is received from contracts with the clients. The group does not plan to introduce this standard ahead of time; the group assesses the assumed effect of its utilization on consolidated financial statement.

IFRS 17 – insurance contracts - IAS issued IFRS 17 in May of 2017 "insurance contracts", complete new accounting standard for insurance contracts, which entails the aspects of recognition, assessment, submission and information access; it will replace IFRS 4 "insurance contracts".

Unlike IFRS requirements, the previously existing local accounting policies of which are freed for the purpose of assessment, IFRS 17 represents a complex model (universal model) for insurance contracts which is complemented by the variable payment approach in case of the contracts, which have characteristics of direct participation and are essentially connected with the investment service contracts and approach of premium distribution, which mainly is used for short-term contracts and usually is valid for certain types of insurance contracts (not life insurance).

Key characteristics of insurance contracts of new accounting model:

- Future cash flow discontinued value assessment, which stipulates the clear correction according to risk factors, re-assessment by the period of accounting (spent cash flow – expected cash flow according to time value and financial risks);
- The range of contract service, which is equal or not proportional to the income of any new day of spent money of contract groups. The range of contract service represents earned profitability of insurance contracts, the recognition of which occurs wither in profit or in loss on the service validity (or scope period);
- Correction of changes in relation to expected discontinued value of future cash flows takes place according to the range of contract service; due to this their recognition occurs either in profit or in loss within the remaining period of contract service.
- Effect of changes on discontinued range either is recording in profit/loss, or in a different complete revenue according to what is chosen by the accounting policy.
- Recognition of Insurance revenue and insurance service expenses occurs within the reporting period of complete revenue, based on incurred service concept.

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- Amount that the policy holder will always receive despite the fact whether the insurance case occurs (unclear components of investment), is not reflected in complete revenue statement but it is recognized in direct balance;
- Results of insurance service (incurred loss deducted from earned revenue) is presented separately from the financial revenue of insurance activity or expenses;
- Detailed explanatory notes covering information on recognized amount from insurance contracts and in relation to the scope and characteristics of risks of contracts;

IFRS 17 comes into force from 1 January 2021 reporting period and it is mandatory to submit comparative numerical data. It is permitted to use it before the due time in case the enterprise will additionally utilize IFRS 9 and IFRS 15, before using IFRS 17 for the first time or, on the day of its utilization. It is mandatory to use it retrospectively. Nevertheless, in case it is impossible for the group to use it retrospectively, the enterprise must choose either a modified retrospective approach, or the fair value approach. The group plans to adopt new standard by the time it enters into force together with IFRS 9 (see above).

Currently the group is assessing the expected effect of the above-mentioned standard on the financial statements.

2.3 Transactions in foreign currency

a) Currency of evaluation and submission

Articles covered in consolidated financial statement are presented in the current of the country in which the group functions (operational currency). Therefore, the following consolidated financial statement is presented in Georgian Gel, which is a functional currency of the group.

b) Converting foreign currency

Monetary assets and liabilities presented in foreign currency are calculated according to the official exchange rate determined by the Georgian National Bank, by the end of the year. Any difference between the exchanges rates are reflected in profit or loss accounts. The results reflected in foreign currency are calculated according to the official exchange rate valid on the operation day.

Any difference between the exchange rates during converting the monetary articles are reflected in the article on loss and profit "Profit/loss as a result of exchange rate difference, net".

Non-monetary articles incurred by the foreign currency are evaluated by the exchange rate on operation day.

The following exchange rate was used to convert existing monetary balance for the last time in foreign currency, on 31 December in 2017 and 2018:

Official exchange rate determined by the National Bank of Georgia

Exchange rate by 31 December, 2018	US Dollar	Euro
	2.6766	3.0701
Exchange rate by 31 December, 2017		
	2.5922	3.1044

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2. Overview of important financial accounting policy of the group (*continued*)

2.4 Insurance and investment contracts – classification

The group draws up contracts, which takes on insurance and financial risks, or both of them. Under insurance contract the insurer takes on the significant risk of the insurance policy holder. Such insurance policy might also bear financial risk as well. Whether the risk is essential or not depends on the probability of insurance case as well as the scope of its potential effect.

2.5 Liability adequacy test

At the end of each fiscal year, the group undertakes liability adequacy test so that to determine the adequacy of recognized insurance liabilities it has taken on, which has been reduced by acquisition of rescheduled expenses and by unifying the enterprises, or by means of insurance contracts, which have been acquired when transferring insurance contracts' portfolio. For the purpose of adequacy test the group uses the future cash flows, losses and administrative expenses stipulated by its insurance contracts, in addition to this, current evaluations of investment revenue derived from necessary assets for the purpose of provision of insurance liabilities. Any devaluation of balance value as a result of the above-mentioned assessment will be recognized in the following way: at first relevant acquisition of rescheduled expenses and by unifying the enterprises, or insurance contracts which have been acquired when transferring insurance contracts' portfolio – are being written off either as profit or as the loss, afterwards the reserve of devaluation loss is created.

2.6 Rescheduled expenses of acquisition

Commission and acquisition expenses related to drawing new contracts as well as updating existing contracts are classified as nonmaterial assets. Al the remaining expenses are recognized as current expenses. Depreciation of rescheduled expenses are carried out within the contract validity in proportion to earning the insurance premium; the range of expected profit depends on past experience and expected results which are reviewed and analyzed by the end of each reporting period. The changes in rescheduled acquisition balance value is reflected in the profit of reporting period.

2.7 Reinsurance contracts

Contracts drawn up with a different insurer (or reinsurer) by means of which, reinsurance will compensate the group the loss of one or two issued contract, and meets the classification criteria of insurance contract, is classified as a reinsurance contract.

The right of profit created for the group in accordance with the reinsurance contracts it owns, are classified as reinsurance asset. Such assets are composed of short-term requirements that are determined according to the profit validity and expected loss occurred because of reinsured contracts.

Assessment of expected income is carried out in proportion to expected amount from the reinsured contracts; each of them complies with the terms of the contract. The liability of reinsurance represents the premium to be paid for reinsurance contracts and is recognized as expenses by the due payment time.

The group assesses the devaluation of reinsured assets each year. In case of objective evidence of the asset, the group reduces the balance value to the point of payment value, and recognizes the devaluation loss in the complete income statement. The group acquires the evidence on assets devaluation by the same principle as it uses in case of devaluation of financial assets defined as deprecated value.

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2.8 Requirements and liabilities related to insurance contracts

Recognition of requirements and liabilities such as agents, brokers and policy holders at acceptable prize or the amount to be paid to them is carried out at the moment when such case occurs.

In case of existence of objective evidence of insurance requirements devaluation, the group decreases the balance value of insurance requirement and recognizes the devaluation loss. The group obtains evidence on insurance requirements devaluation according to the same principle it used during financial assets devaluation by depreciable value. The devaluation loss incurred is determined based on the same methodology, as it was used during the financial assets.

(i) Regression and the remaining property

Certain type of insurance contract enables the group to sell (as usual, the damaged) property as a result of covering the loss (remaining property). The group might also have the right to require from the third party to fully or partially cover the incurred loss (regress).

The payment from the remaining property is reflected through the decrease of liabilities in relation to insurance loss, in case the liabilities are covered, it is recognized as an asset. Reduced amount in relation to the insurance loss is the amount that can be obtained from the third parties within the reasonable time by means of selling the related property.

Regress is also considered as the decrease of liabilities in relation to insurance loss, it is recognized in other assets in case liabilities are covered. Reduced amount in relation to the insurance loss is the amount that can be obtained from the third parties within the reasonable time.

2.9 Liabilities of insurance losses

Reserves are created for the expenses related to the incurred insurance losses, although the group has not yet regulated this. The insurance loss reserves are categorized in two ways: 1) announced but not regulated loss reserves, and 2) incurred, but not regulated loss reserves.

(i) Announced but not regulated loss reserves

Formation of announced, but not regulated loss reserve is carried out by the group in relation to the insurer in case of existing requirements by the date of statement, which is proved by the relevant document.

The amount of the reserve of announced, but not regulated loss reserve is for the recognized requirement of the insurers reserved unspent amount of insurance, which is not yet determined in terms of unmet either full or partial compensation of insurance amount.

(ii) Incurred, but not regulated loss reserves.

Estimation of incurred, but not regulated loss reserves has been carried out by the group based on the past experience; amount of incurred, but not regulated loss reserves is reflected in the statement, as a liability.

2.10 Financial instruments

Financial assets

The group categorizes financial assets into the following categories, based on the features and the aim of purchased asset:

- Debts and requirements

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- Investments owned before the payment date
- Recorded by real value, by reflection as loss or profit
- Financial assets aimed for sell

Debt and requirements category is represented in financial statement of the group, by insurance and reinsurance requirement, reinsurance assets (except for the share in earned premium reserve) and by equivalent of money and money. Money and money equivalent covers cash and the amount in current bank accounts.

The above-mentioned assets are underived financial assets with determined or fixated payments; there value on current market is not quoted. Such financial assets as usual are incurred during provision of goods and service, or when issuing the loan, but it also entails other types of monetary assets. Initial recognition of debts and requirements occurs when transaction expenses are added to the real value, which represents the expenses incurred during purchase of financial assets, emission or realization, the consequent recognition occurs by decreased depreciable value with devaluation reserve, based on effective interest rate methods.

By the end of each financial statement the financial assets are assessed for the purpose of detecting possible devaluation signs. Financial assets are considered as devaluated in case of objective evidence, according to which, after initial recognition of the financial assent the consequent events affected future expected cash flow from investments. The devaluation reserve amount comprises the difference in relation to the devaluated requirements, between the current of and the balance value of future cash flow.

The devalued reserves are reflected as a separate article, although the corresponding loss will be recognized in the complete revenue statement. In case it is impossible to obtain financial assets, the total value of the asset is reduced by related reserve.

The group stops recognition of financial asset in case of the following: a) the contract rights of amount to be received from the financial asset has expired or (b) it grants cash flow receipt right related to the financial asset, or enters into such transaction, when: (i) in the moment of transferring of the asset all related risks and profits are being issued; or (ii) the group does not transfer the profit or essential risks related to owning the asset, but at the same time it does not retain control on this asset. Retaining the control occurs in case the contra-agent has no right to sell the asset to the third party, without taking into account additional limitations in relation to selling.

Investments owned before coverage date are underived financial assets with fixed or determined payable, with already fixed date of payment; the enterprise has potential possibility to retain it before the coverage date, except for the following:

(a) Which the group determines by the initial recognition with real value, reflected either in profit or in loss;
(b) Which the group considered as existing for sell; and
(c) Which is relevant to the definition – loans and requirements.
(d) In the financial statement, investments owned before coverage date are presented in the form of deposit in banks.

Financial liabilities

The group classifies financial liabilities into two types according to their characteristics. The group politics regarding each of financial liabilities is the following:

a) Financial liability by real value, reflected in profit or loss
   Financial liability by real value, reflected in profit or loss represents the financial liability which meets one of the below listed conditions:
   (i) Is classified with the aim to be sold;

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(ii) At initial recognition by the group, it is classified with the real value, by reflecting in profit or loss.

Currently the group has no liability of real value, in profit or loss.

(b) other financial liabilities

Other financial liabilities entail liabilities incurred from insurance contract (except for earned premium reserve), other insurance liabilities, and liabilities initially recognized by real value, and afterwards as depreciable value, according to the effective interest method.

2.11 Key means

The group carries out the review of key means in accordance with the IAS 16 “key means”. Its initial recognition occurs by its prime cost. The prime cost entails the purchase cost, other direct expenses, assessment of any necessary future cash flow in relation to asset liquidation, restoration of the place. The relevant liability will be recognized as deduction.

Future expenses are added to asset balance cost, or is recognized as a separate asset in case the future economic revenue is expected to be received by the group and it is safe to determine the expenses of the asset. All other expenses related to the restoration and retention of the asset will be recognized in the profit or loss of the reporting period in which it occurred.

Depreciation is determined by the linear method, within which assets value is distributed over remaining service period.

Useful service validity of key means:

Group	Useful service validity (year)
Office equipment	5
Furniture	10
Transport means	5

At the end of each reporting period the remaining asset value and service validity is reviewed and in case of need is changed.

The profit in relation to issuing of asset is determined by comparison of income with the balance cost, which is recognized in the complete revenue statement as cash.

2.12 Taxation

Tax expenses for the period is composed of current and rescheduled tax. Recognition of tax is reflected in complete revenue statement except for the cases, when its occurrence is related to other articles in complete revenue, or in capital. In such case, the recognition of the tax is determined accordingly – in other complete income.

Current tax on profit is determined according to the existing legislation in the country by the relevant date, in which the group operates. The management reviews the tax approach in accordance with the different interpretation in the legislation. The group creates deduction regarding the amount the payment of which is expected for the tax agency.

Rescheduled profit payable tax is recognized by means of reviewing the temporary differences between financial and tax databases of liabilities. Although, the rescheduled profit payable tax is not recognized if it was incurred as a result of initial recognition of an asset or a liability; during the operation it does not affect either tax or finance

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database, except for the cases when it is related to the business combination. The payable tax of profit tax is determined based on the profit range existing by the accounting time, which is expected to operate when rescheduled tax assets are spent and liabilities are covered,

Rescheduled tax assets are recognized only in case the tax profit will is expected, which will be retained in relation to the temporary current differences.

Rescheduled tax asset and liability will be closed in case there exists the legal right to close current tax asset in relation to tax liability, and in case rescheduled asset and liability was incurred according to the tax legislation, which allows to submit asset and liability with pure cash.

2.13 Operational lease

The lease is regarded operational if significant risks and profit in relation to the asset remains with the lease-holder. In case of operational lease, the lease-related costs (decreased by the costs to be received from the lease-holder) will be recognized in complete revenue statement, proportional to the validity of the lease.

2.14 Expenses

Recognition of expenses will be reflected in complete revenue statement in case reduction of economic profit Is expected, related to the assets reduction or increase of liability, which can be securely determined.

Incurred expenses will be recognized in profit and loss statement, in case economic profit is not expected from expenses, or in case the future economic profit does not meet recognition criteria as balance asset.

If economic profit is expected within a few days from reporting period, all related expenses will be recognized in complete revenue statement within the reasonable distribution range.

3. *Key accounting assessments and decisions*

The group develops certain accounting assessments and decisions for the future periods. accounting assessments and decisions are continuously reviewed based on the experience and other factors, which also takes into account expected events. Future experience may be different from assessments and assumptions. Find below assessments and assumptions which carry essential risks of changes in the coming fiscal year in relation to balance value of assets and liabilities.

Key assessments and assumptions:

(a) Loss incurred from insurance contracts

Determination of final liabilities in relation to the loss incurred from non-life contract insurance represents the most important assessment made by the group. Certain disambiguation exists when assessing the final costs related to incurred loss.

For the purpose of non-life insurance contracts assessments have to be made in relation to revealed expected final loss by the date of reporting period, as well as unrevealed loss. Determination of final scope of the loss might be done after a significant period. For some type of policy, incurred but unrevealed reserve of the loss takes up the most part of insurance liability reflected in financial statement. Discontinuation of the losses as a result non-life contract does not occur.

b) useful service validity of key means

Depreciation of key means occurs during its useful service validity. Determination of useful service validity depends on the evaluations of the management, namely when the management expects to receive income from utilizing the asset.

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Useful service validity has to be periodically reviewed. Changes in assessment might result in essential change in balance value and complete revenue amount reflected in the statement according to due periods.

c) Tax on profit

In case the group operates on usual basis there are certain operations for which specific tax aspects are not clearly determined. Consequently, the group makes an assessment whether it has to pay additional taxes, based on which it recognizes tax liabilities.

The abovementioned tax liabilities are recognized in case the group considers its tax declaration reliable, although it assumes that the position of the tax agencies might be different. Consequently, the group minimizes the abovementioned risk.

d) Devaluation analysis of requirements incurred as a result of insurance

The group assesses devaluation requirements incurred as a result of insurance contracts; signs of devaluation might be – infringement of due payment date, deterioration of debtor's credit rating. In case such signs of devaluation exist, the management assesses the future cash flows of the requirements' portfolio or future cash flows of individual requirements as well, in case it is necessary.

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4. Net earned bonus

The net earned premium in accordance with the types of insurance for the reporting year, that ended on December 31, 2018 is represented as follows:

2018	Total acquired premium	Share of the reinsurer in the acquired premium	Net acquired premium	Net change in the earned premium reserve	Net earned premium
Medical (health) insurance	14,223,491	-	14,223,491	(619,706)	13,603,785
Land transport vehicles insurance*	3,142,330	(983,291)	2,159,039	38,204	2,197,243
Life insurance	875,018	-	875,018	(7,792)	867,226
Travel insurance	790,571	-	790,571	(12,897)	777,674
Accident insurance	298,925	-	298,925	(71)	298,854
Property	75,240	(2,253)	72,987	(62,315)	10,672
Cargo	62,663	(40,188)	22,475	(2,799)	19,676
Total	**19,468,238**	**(1,025,732)**	**18,442,506**	**(667,376)**	**17,775,130**

JSC PSP Insurance represents the non-entrepreneurial (non-commercial) legal entity – participant insurer in the co-insurance system implemented by means of Mandatory Insurance Center. Acquired and earned insurance premium of the policies gained by the mandatory insurance, for the reporting year, that ended on December 31, 2018, consists of 1,859,142 and 1,733,002 GEL accordingly.

The net earned premium in accordance with the types of insurance for the reporting year, that ended on December 31, 2017 is represented as follows:

2017	Total acquired premium	Share of the reinsurer in the acquired premium	Net acquired premium	Net change in the earned premium reserve	Net earned premium
Medical	24,756,905	-	24,756,905	(410,707)	24,346,198
Life insurance	2,685,013	-	2,685,013	(18,554)	2,666,459
Travel insurance	2,127,145	-	2,127,145	(13,037)	2,114,108
Land transport vehicles insurance	661,893	(118,567)	543,326	290,415	833,741
Accident	263,323	-	263,323	46,027	309,350
Other	87,009	-	87,009	(85,454)	1,555
Total	**30,581,288**	**(118,567)**	**30,462,721**	**(191,310)**	**30,271,411**

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Explanatory notes of consolidated financial statement

For the reporting year that ended on December 31, 2018
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5. Commission income

Commission income for the reporting year, that ended on December 31, 2017 and 2018 is represented as follows:

	2018	2017
Commission income subject to deferral	256,433	29,642
Deferred commission income (note 20)	(95,328)	(26,700)
Depreciation of the deferred commission income	26,700	-
Total	**187,805**	**2,942**

6. Insurance net losses

Insurance net losses for the years ended on December 31, 2018 and 2017 is represented as follows:

	2018	2017
Controlled losses	(16,878,211)	(29,598,342)
Changes in losses reserve	2,236,671	(1,586,858)
Regressions	82,176	226,902
Insurance losses and changes in the insurance liabilities related to the losses	**(14,559,364)**	**(30,958,298)**
Share of the reinsurer in the controlled losses	395,957	150
Shares of the reinsurer in the changes of losses reserves	155,484	-
Share of the reinsurer in the insurance losses and insurance net losses in the changes of the insurance liabilities related to the losses	**551,441**	**150**
Insurance net losses	**(14,007,923)**	**(30,958,148)**

7. Marketing and administrative expenses

Marketing and administrative expenses for the reporting years, that ended on December 31, 2017 and 2018 is represented as follows:

	2018	2017
Labor compensation and other benefits of the employees	(2,650,069)	(3,178,841)
Operational costs of the mandatory insurance center	(195,607)	-
Fees for the State Supervision Service of Insurance	(185,264)	-
Lease	(245,534)	(270,880)
Professional service*	(187,231)	(141,921)
Office expenses	(89,435)	(123,347)
Advertisement	(51,883)	(17,000)
Depreciation and amortization	(75,630)	(82,696)
Communication expenses	(43,530)	(46,480)
Fuel	(32,135)	(39,149)
Representative expenses	(31,299)	(25,247)
Banking costs	(22,308)	(52,962)
Other	(108,453)	(153,801)
Total	**(3,918,378)**	**(4,132,324)**

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Explanatory notes of consolidated financial statement

For the reporting year that ended on December 31, 2018
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2. Marketing and administrative expenses (continued)

Service fee for the annual financial statement audit rendered for the audit company for the years that ended on December 31, 2018 and 2017 consists of 11,657 and 6,267 GEL, accordingly.

8. Devaluation loss

Reconciliation of the requirements' devaluation reserve for the year, that ended on December 31, 2018 is represented as follows:

	Requirements from the owners of the policies	Requirements from regression	Other assets	Total
January 1	(342,285)	(956,761)	-	(1,299,046)
Reserve changing	(228,418)	(90,418)	(111,877)	(430,713)
December 31	(570,703)	(1,047,179)	(111,877)	(1,729,759)

Reconciliation of the requirements' devaluation reserve for the year, that ended on December 31, 2017 is represented as follows:

	Requirements from the owners of the policies	Requirements from regression	სულ
January 1	(387,559)	(684,873)	(1,072,432)
Reserve changing	45,274	(271,888)	(226,614)
December 31	(342,285)	(956,761)	(1,299,046)

The expenses for the requirements' devaluation for the years that ended on December 31, 2018 and 2017 are represented as follows:

	2018	2017
Increase of reservation of doubtful requirements	(430,713)	(226,614)
Write-off bad debts	(59,207)	-
Total	(489,920)	(226,614)

9. Percentage income

Percentage income for the years that ended on December 31, 2018 and 2017, is represented as follows:

	2018	2017
Liberty Bank	178,756	139,325
TBC Bank	174,506	215,790
Cartu Bank	152,130	62,324
VTB Bank	66,916	47,942
Procredit Bank	63,046	77,949
Bank of Georgia	48,462	71,729
Total	683,816	615,059

10. Profit (loss) from exchange rate difference, net

Profit (loss) from exchange rate difference, net, for the years that ended on December 31, 2018 and 2017 is represented as follows:

	2018	2017
Cash and cash equivalents	19,986	(712)
Other financial instruments	135,959	(92,370)
Total	**155,945**	**(93,082)**

11. Taxation

Profit tax benefit for the year that ended on December 31, 2018 is represented as follows:

	2018
Current profit tax	-
Effect of temporary difference	257,691
Total	**257,691**

Reconciliation of the profit tax benefit for the year that ended on December 31, 2018 is represented as follows:

	2018
Profit before taxation	**286,544**
Profit tax rate	15%
Theoretical profit tax expense	(42,982)
Accumulated tax loss	63,686
Non-acknowledged deferred income tax asset	194,857
Effect of permanent differences	42,130
Profit tax benefit	**257,691**

Reconciliation of the deferred profit tax for the year that ended on December 31, 2018 is represented as follows:

	2018
January 1	-
Reflected in profit and loss	
Profit tax benefit	257,691
December 31	**257,691**

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11. Taxation (continued)

Deferred income tax asset as of December 31, 2018, according to the temporary differences is as follows:

	Asset	Liability	Net amount	Recorded in profit-loss
	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Fixed assets	-	(27,056)	**(27,056)**	(27,056)
Requirements from insurance and reinsurance	242,682	-	**242,682**	242,682
Other current assets	16,782	-	**16,782**	16,782
Liabilities originated from insurance contracts	-	(38,403)	**(38,403)**	(38,403)
Accumulated tax loss	63,686	-	**63,686**	63,686
Tax asset	**323,150**	**(65,459)**	257,691	257,691
Covering	(65,459)	65,459	-	-
Tax asset, net	**257,691**	-	257,691	257,691

12. Fixed assets

Fixed assets as of December 31, 2018 and 2017 are represented as follows:

Historical value	**Office equipment**	**Furniture**	**Vehicles**	**Total**
December 31, 2016	**327,807**	**250,786**	**26,974**	**605,567**
Entry	22,755	2,872	3,747	29,374
December 31, 2017	**350,562**	**253,658**	**30,721**	**634,941**
Entry	26,572	52,926	-	79,498
December 31, 2018	**377,134**	**306,584**	**30,721**	**714,439**
Accumulated depreciation				
Balance December 31, 2016	**(225,304)**	**(107,303)**	**(13,243)**	**(345,850)**
Depreciation during the year	(56,221)	(19,076)	(2,364)	(77,661)
December 31, 2017	**(281,525)**	**(126,379)**	**(15,607)**	**(423,511)**
Depreciation during the year	(47,999)	(20,541)	(2,243)	(70,783)
December 31, 2018	**(329,524)**	**(146,920)**	**(17,850)**	**(494,294)**
Carrying value				
balance December 31, 2017	**69,037**	**127,279**	**15,114**	**211,430**
Balance December 31, 2018	**47,610**	**159,664**	**12,871**	**220,145**

Historical value of the fixed assets, the useful service term of which is expired, though the group continues using it in the operating activity process, consists of 213,037 GEL.

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13. Liabilities arising from insurance contracts and reinsurance assets

Liabilities arising from insurance contracts and reinsurance assets as of December 31, 2018 and 2017 are represented as follows:

	31.12.2018	31.12.2017
Liabilities arising from insurance contracts		
Unearned premium reserve	5,183,035	4,261,751
Declared, but uncontrolled losses reserve	4,686,125	6,997,980
Occurred, but undeclared losses reserve	263,075	187,891
Total	**10,132,235**	**11,447,622**
Reinsurance assets		
Share of the reinsurer in the unearned premium reserve	381,312	106,800
Share of the reinsurer in the declared, but uncontrolled losses reserve	131,807	-
Share of the reinsurer in the occurred, but undeclared losses reserve	23,677	-
Total	**536,796**	**106,800**
Liabilities arising from the insurance contracts decreased by the reinsurer's share		
Unearned premium reserve	4,801,723	4,154,951
Declared, but uncontrolled losses reserve	4,554,318	6,997,980
Occurred, but undeclared losses reserve	239,398	187,891
Total	**9,595,439**	**11,340,822**

Analysis of the liabilities and reinsurance assets generated from insurance contracts as of December 31, 2018 and 2017 is represented as follows:

ა) Unearned premium reserve

Unearned premium reserve, gross	2018	2017
Balance at January 1	**4,261,751**	**3,963,641**
Acquired premium	19,468,238	30,581,288
Earned premium	(18,546,954)	(30,283,178)
Balance at December 31	**5,183,035**	**4,261,751**

Share of the reinsurer in the unearned premium reserve		
Balance at January 1	**106,800**	**-**
Share of the reinsurer in the acquired premium	1,025,732	118,567
Share of the reinsurer in the earned premium	(751,220)	(11,767)
Balance at December 31	**381,312**	**106,800**

Unearned premium reserve, net		
Balance at January 1	**4,154,951**	**3,963,641**
Acquired premium	18,442,506	30,462,721

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Earned premium	(17,795,734)	(30,271,411)
Balance at December 31	**4,801,723**	**4,154,951**

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13. Liabilities arising from insurance contracts and reinsurance assets (continued)

ბ) Reserve of losses

Reserve of losses, gross	**2018**	**2017**
Declared, but uncontrolled losses reserve as of January 1	6,997,980	5,390,336
Occurred, but undeclared losses reserve as of January 1	187,891	208,677
Total occurred losses reserve as of January 1	**7,185,871**	**5,599,013**
Regulation of losses of the past year (payment)	(3,854,909)	(3,030,480)
Change of evaluation of the losses of the past year	(1,829,111)	(1,418,892)
Evaluation of the expenses necessary for the regulation of the current year losses	16,470,651	32,604,092
Regulation of the current year losses	(13,023,302)	(26,567,862)
Total occurred losses reserve as of December 31	**4,949,200**	**7,185,871**
Declared, but uncontrolled losses reserve as of December 31	4,686,125	6,997,980
Occurred, but undeclared losses reserve as of December 31	263,075	187,891

Reserve of losses, share of the insurer		
Declared, but uncontrolled losses reserve as of January 1	-	-
Occurred, but undeclared losses reserve as of January 1	-	-
Total occurred losses reserve as of January 1	-	-
Regulation of losses of the past year (payment)	-	-
Change of evaluation of the losses of the past year	-	-
Evaluation of the expenses necessary for the regulation of the current year losses	551,441	(150)
Regulation of the current year losses	(395,957)	150
Total occurred losses reserve as of December 31	**155,484**	-
Declared, but uncontrolled losses reserve as of December 31	131,807	-
Occurred, but undeclared losses reserve as of December 31	23,677	-

Reserve of losses, net	**2018**	**2017**
Declared, but uncontrolled losses reserve as of January 1	6,997,980	5,390,336
Occurred, but undeclared losses reserve as of January 1	187,891	208,677
Total occurred losses reserve as of January 1	**7,185,871**	**5,599,013**
Regulation of losses of the past year (payment)	(3,854,909)	(3,030,480)
Change of evaluation of the losses of the past year	(1,829,111)	(1,418,892)
Evaluation of the expenses necessary for the regulation of the current year losses	15,919,210	32,604,242
Regulation of the current year losses	(12,627,345)	(26,568,012)
Total occurred losses reserve as of December 31	**4,793,716**	**7,185,871**

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Declared, but uncontrolled losses reserve as of December 31	4,554,318	6,997,980
Occurred, but undeclared losses reserve as of December 31	239,398	187,891

13. Liabilities arising from insurance contracts and reinsurance assets (continued)

Liabilities arising from insurance contracts – basic terms and permissions

Insurance contracts include medical, life, property, land vehicles, accident, cargo and travel insurance. Such types of insurance are usually of 12 months.

Insurance reserves for insurance contracts (occurred, but undeclared losses reserve and declared, but uncontrolled losses reserve) are defined for covering the final value of the liabilities in relation to the losses, which are already occurred and evaluated based on the facts known at the reporting date.

Re-evaluation of the reserves is performed regularly, taking into account the tendency of losses, as well as their coverage. Discounting of the amount of insurance losses' reserves is not applied in relation to the time value.

Information about the occurred, but undeclared losses reserve calculation, including liabilities' adequacy test, is indicated in Note 2 (review of significant accounting policies of the group, liabilities arising from insurance contracts).

14. Tax assets

According to the amendment to the Tax Legislation of Georgia, from January 1, 2016, taxes are paid on the unified treasury code for taxes from a single account of the Treasury. The tax assets and liabilities in the consolidated financial statements prepared by December 31, 2018 and 2017 are presented by the group on a net basis - 93,544 and 53,109 GEL as a tax asset, respectively.

15. Requirements from insurance and reinsurance

Requirements from insurance and reinsurance, as of December 31, 2018 and 2017 are represented as follows:

	31.12.2018	**31.12.2017**
Requirements from the owners of the policies	6,124,551	6,186,909
Requirements from regressions	1,071,137	1,028,342
Requirements of reinsurance	713,138	29,742
Other	3,677	3,718
	7,912,503	**7,248,711**
Minus: devaluation reserve on insurance requirements	(570,703)	(342,285)
Minus: devaluation reserve on regressions	(1,047,179)	(956,761)
Total	**6,294,621**	**5,949,665**

The real value of requirements derived from insurance and reinsurance does not differ from their carrying value as of 31 December 2018 and 2017.

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The Group creates doubtful debts' reserve for timely requirements. The qualitative information of requirements is given in Note 22. Reconciliation of doubtful debts' reserve is given in Note 8.

Additional information on insurance and reinsurance requirements is given in Note.

16. Other assets

Other assets as of December 31, 2018 and 2017 are represented as follows:

	31.12.2018	31.12.2017
Advanced payments paid to suppliers	243,350	119,291
Pre-paid funds to the state supervision service of the insurance	117,994	-
	22,694	14,024

JSC PSP Insurance

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Other current assets		
Total other assets, before devaluation	**384,038**	**133,315**
Minus: devaluation reserve	(111,877)	-
Total	**272,161**	**133,315**

Reconciliation of doubtful debts' reserve is given in Note 8.

17. Deposits placed in banking institutions

Deposits placed in banking institutions as of December 31, 2018 and 2017 are represented as follows:

	31.12.2018	31.12.2017
Capital amount	10,448,509	7,867,963
Interest	74,788	20,455
Total	**10,523,297**	**7,888,418**

Deposits placed in banking institutions include the deposits open for more than 3 months in Georgian resident banks.

JSC "PSP Insurance" is required to have deposits (mandatory reserve) and monetary funds in banking institutions, the amount of which depends on the amount of losses to be compensated (insurance liabilities) evaluated by the company. The right of the company is limited by the legislation in relation to the free disposal of such deposit.

The real value of deposits placed in banking institutions as of December 31, 2018 and 2017 does not different from their carrying value.

The additional information about the deposits placed in the banking institutions is given in Note 22.

18. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2018 and 2017 are represented as follows:

	31.12.2018	31.12.2017

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Cash in bank (GEL)	2,830,531	7,596,027
Cash in bank (foreign currency)	583,181	1,041,273
Cash in national currency	67,855	28,563
Total	**3,481,727**	**8,665,863**

Real value of the cash and cash equivalent as of December 31, 2018 and 2017 does not differ from their carrying value.

The additional information about the cash and cash equivalents is given in Note 22.

19. Other insurance liability

Other insurance liability as of December 31, 2018 and 2017 is represented as follows:

	31.12.2018	**31.12.2017**
Liability against the insurer	1,189,845	118,352
Agent and broker service	90,067	90,611
Total	**1,279,912**	**208,963**

The real value of other insurance liabilities as of December 31, 2018 and 2017 does not differ from their carrying value.

The additional information about other insurance liabilities is given in Note 22.

20. Delayed commission income

Delayed commission income as of December 31, 2018 and 2017 is represented as follows:

	31.12.2018	**31.12.2017**
January 1	**26,700**	-
Commission income subject to delay	256,433	29,642
Amortization Note 5)	(187,805)	(2,942)
December 31	**95,328**	**26,700**

21. Other liabilities

Other liabilities as of December 31, 2018 and 2017 are represented as follows:

	31.12.2018	**31.12.2017**
Lease	44,100	827,148
Salary liabilities	23,205	4,377
Other liabilities *	4,690	930,384
Other liabilities towards against the suppliers	54,314	62,537
Total	126,309	1,824,446

* Other liabilities are the liabilities arising out of the sale of medicines and rendering other medical services (PSP Pharma Ltd).

The real value of other liabilities as of December 31, 2018 and 2017

does not differ from their carrying value.

The additional information about other liabilities is given in Note 22.

22. Risks management

Risk management is an essential element of insurance activity. The risk is an innate phenomenon for the activity of the group, but it can be managed by regular activities such as identification, evaluation and daily monitoring of risks, resulting in a risk limit and the control mechanisms are established. Each person in the group is accountable for the risk associated with their responsibility. The main financial risks of the group are credit, liquidity and currency risks. The risk management policy of the group related to these risks is discussed below.

22.1. Capital management goals, policies and approaches

The group has developed the following goals, policy and approaches of capital management to manage those risks affecting capital position.

Capital management goals are:

- the Group could maintain the level of stability required to ensure the protection of insurance policy holders;
- to share capital effectively and help business development in order the repercussion could meet capital requirements for ownership requirements;
- to maintain financial flexibility for maintaining liquidity and access to different capital markets;
- Maintain financial strength in order to ensure new business growth and insurance policy holders, regulators and equity holders.

The activity of JSC "PSP Insurance" is subject to regulatory requirements within the jurisdiction in which it operates. Such regulatory rules define not only the direction of the activity and monitor it, but also set certain restrictive standards, such as capital adequacy standards, to minimize defaults of insurance companies and bankruptcy risks as a result of unforeseen liabilities. The company's capital management policy is aimed at maintaining sufficient liquid assets to meet the requirements of the supervisory body.

The local insurance supervisor establishes the rule for determining the minimum amount of capital for insurance companies.

According to the order, dated September 16, 2016 issued by the head of the State Insurance Supervision Service of Georgia, the amount of supervisory capital of the insurer should exceed 50% of the margin of solvency received from calculation from January 1, 2017 to July 1, 2017. The amount of supervisory capital of the insurer must exceed 75% of the margin of solvency received from calculation from July 1, 2017 to January 1, 2018.

Also, according to the Order, dated September 16, 2016, issued by the head of the State Insurance Supervision Service, the amount of the insurer's supervisory capital, at all stages of the implementation of insurance activity shall exceed the minimum amount of the capital under the Order N 27, dated December 25, 2017, issued by the State Insurance Supervision Service, on “approval of the rule on determination of minimum capital amount on the territory of Georgia at all stages of the implementation of insurance activity”.

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22. Risks management (continued)

The minimum amount of the capital defined by the Order N 27, dated December 25, 2017 on "approval of the rule on determination of minimum capital amount on the territory of Georgia at all stages of the implementation of insurance activity", at all stages of the implementation of insurance activity shall consist of:

a) Life insurance: 4,200,000 GEL – from December 31, 2018;

b) Insurance (not life) – except the insurance of obligatory form, insurance of the liabilities' accomplishment and insurance of credit liabilities: - 3,400,000 GEL – from December 31, 2018;

c) Insurance (not life) – including the insurance of obligatory form, insurance of the liabilities' accomplishment and insurance of credit liabilities: - 4,200,000 GEL – from December 31, 2018;

d) Reinsurance: - 4,200,000 – from December 31, 2018;

As of December 31, 2018 and 2017, JSC PSP Insurance satisfied the above-mentioned legislative requirements.

22.2. Management of insurance risks

The risk of the insurance contract is the risk of insurance case, including the volume of risk and declaring periods risks. The basic risk of a group is that the amount of actual loss and insurance amount may exceed the carrying value of insurance liabilities. This is caused by the fact that the frequency of the losses and their volume may be higher than the initially evaluated liability of the losses.

The group diversifies the portfolio of insurance contracts in order to neutralize risks, thus reducing the risk of unforeseen adverse effects on the portfolio. The risks are neutralized with the cautious selection and implementation of the underwriting strategy. The group establishes underwriting directives and restrictions, from which it is defined what risk can be obtained and with what restrictions. Monitoring of these restrictions is constantly being implemented.

The group uses "loss ratio" to monitor insurance risks. The coefficient is obtained by dividing net insurance losses on net insurance income.

The group's loss ratio is as follows:

	2018	2017
Loss ratio	79%	102%

The insurance implemented by the group includes medical, life, property, cargo, land transport, accident, travel insurance. Such types of insurance usually consist of 12 months. The essential risks for non-life insurance contracts represents the natural disasters, fires, etc. The substantial risk for contracts for medical insurance is generated by lifestyle changes, as a result of massive diseases of insured individuals, and so on. The risks are significantly different by their origin place, species and industry. Hence, non-appropriate ratio of portfolio funds may have negative impact on group incomes.

The above-mentioned risk level is reduced by diversification of the portfolio of insurance contracts. The risk is also neutralized by careful selection and implementation of the underwriting strategy that ensures the risks dividing according to species and insurance funds. In addition, the strict policy of reviewing losses for the evaluation of all new and current losses, regular review of losses regulatory procedures and frequent investigation of possible scams represents risk reduction procedure of the group. The group also uses the policy of losses management and regulation in order to reduce the negative impact of future unforeseen events on its activity. The group also limits the risk level of certain contracts by imposing the maximum amount of losses in order to reduce the risk related to the catastrophic events.

22. Risks management (continued)

The basics for indefiniteness at the evaluation of the losses to be compensated in future

The liability of paying the losses related to insurance transactions arises at the time of their actual occurrence. There are several variables which influence the volume and timing of cash flows generated from insurance transactions. This indefiniteness is mainly related to the inherent, internal risk of the insured sector, and risk management procedures adopted and implemented by the group.

The estimated value of losses involves direct expenses incurred to cover losses that have been reduced by third parties' payable funds. The group tries to make sure that it has sufficient information on the occurrence of insurance losses. Nevertheless, as a rule, actual outcome differs from the initial liability evaluated by the group, taking into consideration the indefiniteness related to the reserves of insurance losses. The liabilities related to the insurance transactions include the reserve of occurred but undeclared losses, and the reserve od declared but uncontrolled losses.

Evaluation of the occurred but undeclared losses reserve, as a rule, is usually related to a number of indefinite criteria, unlike the assessment of the value of the losses, that the group has the information about.

At the end of each period the group tests the estimated losses for the adequacy: the group determines whether the losses assessed liabilities are less than the carrying value that would be required, if the relevant insurance liabilities would be applicable to the IAS 37 "Deductions, Conditional Liabilities and Conditional Assets", if the assessed liabilities deemed to be less than the deductions established in accordance with the IAS 37's requirements, then the group shall recognize the entire deficient amount for profit or loss and increase the carrying value of the relevant insurance liabilities.

22.3. Management of financial risks

The group has the following risks during the period of its activity:

- Credit risk
- Liquidity risk
- Currency risk

Basic financial instruments

Financial instruments used by the group, that may be facing financial risk are as follows:

	31.12.2018	31.12.2017
Deposits placed in the bank institutions	10,523,297	7,888,418
Cash and cash equivalents	3,481,727	8,665,863
Requirements from the insurance and reinsurance	6,294,621	5,949,665
Reinsurance assets (except the share of insurer in the unearned premium reserve)	155,484	-
Total financial assets	**20,455,129**	**22,503,946**
Other liabilities	126,309	1,824,446
Other insurance liabilities	1,279,912	208,963
Liabilities originated from the insurance contracts (except the unearned premium reserve)	4,949,200	7,185,871
Total financial liabilities	**6,355,421**	**9,219,280**

22. Risks management (continued)

Real cost of the financial instruments

The real value is the price that is given when selling the asset or is paid for issuing the liability for the organized operation at the day of the evaluation between the market participants, or in case of absence of the mentioned, in accordance with the market, to which the group has access and is the most favorable for the given date. When possible, the group determines the actual value of the quoted price of the given instrument at the operated market. The market is deemed to be operational if the assets and liabilities are operated with sufficient frequency and volume to ensure the information on prices in constant mode.

If there is no quoted price on the operating market, the group determines the actual value using the assessment methods. The selected assessment method uses at maximum the observable market data, minimally based on non-market data and envisages all the factors that market participants would take into consideration when determining the price.

The best evidence for the actual value of a certain financial instrument at initial recognition is the price of the transaction, i.e. the actual value of the compensation amount paid or received.

If the group decides that the actual value of the initial recognition differs from the transaction price and the actual value is not confirmed by the quoted price existing at the operating market of the identical assets or liabilities, as well as, this value is not based on the evaluation of the method, the variables of which include only the observable market data, in this case the financial instrument shall be initially measured at the actual value, adjusted by the difference between this value and the transaction price. Any difference between this value and the initial value obtained by the evaluation method shall be later recognized in profit or loss during the vital period of the instrument, but no later than the assessment is fully based on the observable market data or when the transaction is closed. The group establishes the actual value using the following hierarchy which reflects the meaning of the data used in the assessment:

Level 1: Quoted market price (without adjustment) for a similar financial instrument on the operating market;

Level 2: The data except those in the first level and which are obvious both directly (prices) and indirectly (derivative from prices). This category includes instruments, that are evaluated using the following data: Market prices quoted at current markets for similar financial instruments; quoted prices for similar instruments that are less active; or other methods of assessment, in which all important data is directly or indirectly obvious, based on market data;

Level 3: non-obvious data. This category includes all the instruments in which the evaluation methods include the data that do not rely on visible data and the non-visible data makes significant influence on the instrument evaluation. This category includes the instruments that are evaluated based on the quoted prices for similar instruments, within which the significant non-obvious adjustments or permits are required to reflect the differences between the instruments.

The actual value evaluation used for financial instruments registered with amortized cost was based on the 2nd and 3rd hierarchy. The above hierarchies were made using the discounted cash flow method. Assessment of the actual value for financial instruments with unquoted fixed interest rate has been performed on the basis of expected future cash flows that are discounted from the current interest rate that is characteristic for a new financial instrument with a similar credit risk and maturity period. The actual value of cash and cash equivalents is estimated at the first level. There was no change in the assessment methodology used for the 2nd and 3rd grade assessment hierarchy by the end of December 31, 2018 and 2017.

22. Risks management (continued)

Credit risk

Credit risk represents the risk of financial losses of the group in case if the customer (insurer, reinsurer) or the other party related to the financial instruments does not perform the obligations under the contract. In general, the group's credit risk is linked to the sale of insurance products for customers of the Georgian market (postponing of the payment) and depends on the solvency of each user.

According to the internal policies of risk assessment, the group performs the evaluation of each new insurer before signing the agreement and offering the conditions. The customer's credit rating is the third party's assessment/characterization (if possible, to obtain this information), and in some cases the banking history.

During the monitoring of the consumer's credit risk the customers are being grouped according to their credit history, species (individual or legal entities), industry, etc. Groups of "high risk" are grouped separately and further cooperation with them is based on preliminary payments.

The Group creates an impairment, which represents the best assessment of future losses. The main part of the total deductions comes to general reserves which are created by the group in accordance with the arrear's analysis. A small portion of the deductions is presented as a specific reserve that is calculated by analyzing each important counterpart.

Analyzing the maturity of the insurance requirements as of December 31, 2018 and 2017 are as follows:

	2018	2017
Individually evaluated requirements for devaluation	90,261	90,261
Evaluated requirements is groups for devaluation		
Timeless	5,740,685	4,447,083
From 0 up ot 3 months	484,165	1,448,866
From 3 up to 6 months	113,782	62,077
From 6 up to 9 months	50,595	63,724
From 9 up to 12 months	33,220	53,504
More than 1-year delay	1,399,795	1,083,196
	7,912,503	**7,248,711**
Minus: devaluated reserve	(1,617,882)	(1,299,046)
Total	**6,294,621**	**5,949,665**

Liquidity risk

The risk of liquidity arises regarding the group's management of covering the working of capital and basic liabilities. The risk is that the group may encounter difficulties when the liabilities are paid in the period of their payment term.

The group controls these types of risks according to the maturity analysis and determines the group's strategy for the future financial period.

In order to manage liquidity risk, the group regularly monitors future cash flows, which is the asset/liability management process. Liquidity analysis of financial instruments as of December 31, 2018 and 2017, includes the liabilities of one-year maturity.

22. Risks management (continued)

Market risk

Market risk is the risk of reduction of actual value of financial instruments as a result of changes in market conditions.

The market risk of the group is due to the use of interest instruments, the use of financial instruments expressed in trade and foreign currency. This risk is in relation to changes in the interest rates (interest rate) and the exchange rate (currency risk) in the actual value of financial instruments or the future cash revenues associated with them. The group does not have the financial instruments having the variable interest rate in the current period.

Currency risk

Currency risk is the risk of a change in the value of a financial instrument as a result of foreign currency fluctuations. Financial risk of the group and monetary movement can be faced with the currency risk.

Currency risk analysis as of December 31, 2018:

	GEL	US Dollars	EUR	Total
Financial assets				
Deposits placed in the banking institutions	6,062,549	4,460,748	-	10,523,297
Cash and cash equivalents	2,898,546	581,636	1,545	3,481,727
Requirements from insurance and reinsurance	5,240,704	1,017,337	36,580	6,294,621
Reinsurance assets (except the share of the reinsurer in the unearned premium reserve)	155,484			155,484
Total financial assets	**14,357,283**	**6,059,721**	**38,125**	**20,455,129**
Financial liabilities				
Liabilities originated from the insurance contracts (except the unearned premium reserve)	4,949,200		-	4,949,200
Other insurance liabilities	90,067	1,189,845	-	1,279,912
Other liabilities	126,309	-	-	126,309
Total financial liabilities	**5,165,576**	**1,189,845**	-	**6,355,421**
Currency position	**9,191,707**	**4,869,876**	**38,125**	

22. Risks management (continued)

Currency risk analysis as of December 31, 2017:

	GEL	US Dollars	EUR	Total
Financial assets				
Deposits placed in the banking institutions	4,210,522	3,677,896	-	7,888,418
Cash and cash equivalents	7,624,590	1,039,710	1,563	8,665,863
Requirements from insurance and reinsurance	5,488,536	404,243	56,886	5,949,665
Total financial assets	**17,323,648**	**5,121,849**	**58,449**	**22,503,946**
Financial liabilities				
Liabilities originated from the insurance contracts (except the unearned premium reserve)	7,185,871	-	-	7,185,871
Other insurance liabilities	90,611	118,352	-	208,963
Other liabilities	1,704,004	120,443	-	1,824,446
Total financial liabilities	**8,980,485**	**238,795**	-	**9,219,280**
Currency position	**8,343,163**	**4,883,054**	**58,449**	

Sensitivity to the currency risk

The table below shows the group's sensitivity to the US dollar, EUR to GEL, within 20% increase and decrease terms. 20% represents a rate that will be provided to the group's management when providing information on currency risk, and by the management's estimation it represents a possible change of the exchange rate. The sensitivity analysis includes only balancing amounts of monetary items expressed in foreign currencies and

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corrects their effect for the reporting date by a 20% change.

The effect of overestimation of assets on net profits and equity as of December 31, 2018 and 2017 is as follows:

	US Dollars		EUR	
2018	GEL/USD 20%	GEL/USD – 20%	GEL/EUR 20%	GEL/EUR – 20%
Profit/ (loss)	973,975	(973,975)	7,625	(7,625)

	US Dollars		EUR	
2017	GEL/USD 20%	GEL/USD – 20%	GEL/EUR 20%	GEL/EUR – 20%
Profit/ (loss)	976,611	(976,611)	11,690	(11,690)

23. Operations with related parties

The related parties include owners, joint ownership companies, joint and liaison enterprises. When analyzing the relationship with the linked party, not only a legal form of communication is envisaged but its essence as well.

Operations reflected in the full income statement of 2018 are related to the parties concerned:

	Other related party	Supreme management	Article in financial statement
Acquired premium	2,020,127	-	**19,468,238**
Marketing and administrative expenses	(237,340)	-	**(3,918,378)**
Labor compensation of supreme management	-	(206,908)	**(3,918,378)**

Operations reflected in the full income statement of 2017 are related to the parties concerned:

	Other related party	Supreme management	Article in financial statement
Acquired premium	1,480,224	-	**30,581,288**
Marketing and administrative expenses	(176,400)		**(4,132,324)**
Labor compensation of supreme management	-	(171,647)	**(4,132,324)**

The balance sheet reflected in the statement of financial condition as at December 31, 2018 is related to:

	Other related party	Article in financial statement
Requirements from insurance and reinsurance	1,146,185	**6,294,621**
Liabilities originated from the insurance contracts	370,582	**10,132,235**
Other liabilities	59,364	**126,309**

The balance sheet reflected in the statement of financial condition as at December 31, 2017 is related to:

	Other related party	Article in financial statement
Requirements from insurance and reinsurance	1,101,370	**5,949,665**
Other liabilities	1,765,121	**1,824,446**
Liabilities originated from the insurance contracts	330,673	**11,447,622**

The related parties are the companies under common control.

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24. Conditional liabilities

Court Disputes - as of December 31, 2018 and 2017, the group has no substantive court disputes. The management believes that the material loss will not occur, and therefore the management of the group has not created the deduction regarding the court disputes.

Taxes - different interpretations and changes may be performed in Georgian Tax Legislation. In addition, management tax interpretations may differ from interpretations of tax authorities, group operations can be appealed by the tax authorities and the group may be charged the additional taxes, fines, interest rates. The group believes that all taxes have been paid and therefore no deduction has been submitted to the consolidated financial statements. Tax authorities can review group operations within 3 years.

Operating environment - position on the Georgian market generates additional economic, political, social, legal and legislative risks compared to the more developed market. Laws and regulations, tax and regulatory frameworks influence on the rapid development of business in Georgia. The future economic policy of Georgia is influenced by the fiscal and monetary policy adopted by the government, together with the legislative, regulatory and political environment.

25. Events following the reporting period

After the reporting period, there have been no events that require explanatory notes.

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ELISO ARJEVANIDZE TRANSLATOR 62007097462 ელისო არჯევანიძე თარჯიმანი

ორიათას ცხრამეტი წლის 27 მაისს მე, ნოტარიუსს მარიკა გოგოლაძეს ქალაქ თბილისში, ამ სანოტარო ბიუროში, რომელიც მდებარეობს მისამართზე: ქ. თბილისი, დავით აღმაშენებლის გამზირი №183, მომმართა **მოქ. ელისო არჯევანიძე (დაბ. 25.08.1983 წ. ქ. გაგრაში) უმაღლესი განათლების დიპლომის მქონე ინგლისური ენის მთარგმნელმა, რეგისტირებული:** გაგრა, ს. ხეივანი, ჭავჭავაძის ქ. 11, **მისი განცხადებით ამჟამად მცხოვრები: თბილისი, მუხიანი, მ/რ, კორპ. 17, ბ. 78, ID ბარათი 17IA35885, პირადი № 62007007462, გაც. იუსტიციის სამინისტროს მიერ 17.05.2017 წ.)** და წარმოადგინა დოკუმენტის თარგმანი და მოითხოვა თარგმანზე თავისი ხელმოწერის ნამდვილობის სანოტარო წესით დამოწმება.
მე დავადგინე მოქ. ე. არჯევანიძის პირადობა წარმოდგენილი პირადობის დამადასტურებელი დოკუმენტის საფუძველზე და ასევე შევამოწმე მისი უფლებაუნარიანობა **(დიპლომი სუ№ 004691, გაც. ივ. ჯავახიშვილის სახელობის თბილისის სახელმწიფო უნივერსიტეტის სოხუმის ფილიალი, 2004 წ.)** და ვადასტურებ, რომ იგი ნამდვილად უფლებამოსილია თარგმნოს.
მან ჩემი თანდასწრებით პირადად მოაწერა ხელი დოკუმენტის თარგმანს.

On the 27th of May, two thousand and nineteen, before me, Marika Gogoladze, the Notary in c. Tbilisi, at my Notary Public Office located at the address: 183, David Aghmashenebeli Ave., Tbilisi, appeared the citizen **Eliso Arjevanidze (born on 25.08.1983 in Gagra), English language Translator with Higher Education Diploma, registered at: N 11, Chavchavadze Str., v. Kheivani, Gagra, as she declared residing at: fl.78, bl.17, I m/r, Mukhiani, Tbilisi, Identity Card # 17IA35885, Personal # 62007007462, issued by Ministry of Justice on 17.05.2017)** and submitted the translation of the document and asked to notarize the authenticity of her signature.
I identified **Eliso Arjevanidze's** identity on the basis of the submitted Identity Card, as well as I checked her capability **(Diploma SU # 004691, issued by Sokhumi Branch of Iv.Javakhishvili Tbilisi State University in 2004)** and confirm that she is really competent to translate.
She personally put her signature on the translation of the document in my presence.

სანოტარო მოქმედების შესრულებისათვის გადახდილია თარჯიმნის ხელმოწერის ნამდვილობის დადასტურებისათვის 72+18%+2 ლარი.

Duty paid for the notary service implementation – notarization of the Translator's signature authenticity 72+18%+2 GEL.

ნოტარიუსი მარიკა გოგოლაძე

Notary Marika Gogoladze