JSC INSURANCE COMPANY UNISON

Financial Statements and

Independent Auditor's Report

Year ended 31 December 2018

Contents:

Tel: +995 32 2545 845
Fax: +995 32 2188 188
www.bdo.ge

2 Tarkhnishvili street
Vere Business Center
0179 Tbilisi
Georgia

INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC Insurance Company Unison

Opinion

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

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

Basis for Opinion

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The engagement partner responsible for the audit results in this independent auditor's report is Ivane Zhuzhunashvili (Registration number in the registry # SARAS-A-720718)

For and on behalf of BDO LLC

Tbilisi, Georgia

12 April 2019

JSC INSURANCE COMPANY UNISON

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In GEL)

	Note	2018	2017
Gross written premiums on insurance contracts		42,372,222	19,048,869
Reinsurer's share of gross written premium on insurance contracts		(20,079,589)	(2,124,687)
Net written premium		**22,292,633**	**16,924,182**
Changes in provision for unearned premiums		(7,185,844)	6,083,084
Changes in the re-insurer's share in provision for unearned premiums		5,165,095	(9,401,494)
Net insurance revenue	4	**20,271,884**	**13,605,772**
Commission income	5	1,171,929	1,458,229
Total revenue		**21,443,813**	**15,064,001**
Insurance claims and loss adjustment expenses		(12,580,719)	(7,112,770)
Insurance claims and loss adjustment expenses recovered from reinsurers		579,982	(1,017,987)
Net insurance claims	6	**(12,000,737)**	**(8,130,757)**
Acquisition costs	7	(2,530,482)	(1,594,554)
Expenses for marketing and administration	8	(4,672,539)	(3,254,710)
Impairement charge	9	(2,099,509)	(721,822)
Other income and expenses/net	10	723,802	285,968
Operating expenses		**(8,578,728)**	**(5,285,118)**
Total claims and expenses		**(20,579,465)**	**(13,415,875)**
Profit from operating activity		**864,348**	**1,648,126**
Financial income/(expenses), net	11	266,239	279,717
Exchange rate difference gain/(loss), net	12	227,601	(255,431)
Profit before taxation		**1,358,188**	**1,672,412**
Income tax expense	13	(263,251)	(309,913)
Total comprehensive income for the year		**1,094,937**	**1,362,499**

These financial statements were approved by management on 12 April 2019 and were signed on its behalf by:

General director ______ V. Akhrakhadze

Financial Director ______ A. Gomiashvili

Notes on pages 9-43 are the integral part of these financial statements.

JSC INSURANCE COMPANY UNISON

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In GEL)

	Note	31.12.2018	31.12.2017
Assets			
Property and equipment	14	3,127,886	3,226,460
Intangible assets	15	208,980	113,381
Deferred acquisition costs	16	1,959,870	1,320,002
Reinsurance assets	17	13,595,137	8,391,210
Insurance and reinsurance receivables	18	25,376,613	16,762,234
Other current assets	19	536,852	611,405
Amount due from credit institutions	20	6,486,807	6,154,358
Cash and cash aquivalents	21	3,274,340	3,356,752
Total assets		**54,566,485**	**39,935,802**
Equity			
Share Capital		2,077,000	2,077,000
Revaluation reserve		1,205,116	1,234,155
Retained earnings		4,391,484	3,267,508
Total equity		**7,673,600**	**6,578,663**
Liabilities			
Insurance contract liabilities	17	28,576,997	21,022,075
Other insurance liabilities	22	16,102,427	9,976,105
Deffered commission income	23	476,938	746,503
Deferred income tax liablilitiy	13	4,614	206,843
Tax liabilities		194,841	121,095
Borrowed funds	25	729,659	850,579
Other liabilities	26	807,409	433,939
Total liabilities		**46,892,885**	**33,357,139**
Total equity and liabilities		**54,566,485**	**39,935,802**

Notes on pages 9-43 are the integral part of these financial statements.

JSC INSURANCE COMPANY UNISON

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2018

(In GEL)

	Share Capital	Retained Earning	Revaluation reserve	Total
31 December 2016	**2,077,000**	**1,875,270**	**1,263,894**	**5,216,164**
Comprehensive income for the year				
Profit for the year	-	1,362,499	-	**1,362,499**
Total	**-**	**1,362,499**	**-**	**1,362,499**
Other changes in reserves				
Transfer from the revalution reserve to retained earnings	-	29,739	(29,739)	-
Total	**-**	**29,739**	**(29,739)**	**-**
31 December 2017	**2,077,000**	**3,267,508**	**1,234,155**	**6,578,663**
Comprehensive income for the year				
Profit for the year	-	1,094,937	-	**1,094,937**
Total	**-**	**1,094,937**	**-**	**1,094,937**
Other changes in reserves				
Transfer from the revalution reserve to retained earnings	-	29,039	(29,039)	-
Total	**-**	**29,039**	**(29,039)**	**-**
31 December 2018	**2,077,000**	**4,391,484**	**1,205,116**	**7,673,600**

JSC INSURANCE COMPANY UNISON

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In GEL)

	Note	2018	2017
Cash flows from operating activities			
Profit before income tax		1,358,188	1,672,412
Adjustments for:			
Depreciation and amortization	8	216,297	186,805
Changes in unearned premium reserves	17	7,185,844	(6,083,082)
Changes in unearned premium reserves, reinsurer's share	17	(5,165,095)	9,401,492
Changes in insurance claims reserves	6	369,079	(1,876,256)
Changes in insurance claims reserves, reinsurer's share	6	(38,833)	1,705,600
Changes in deferred acquisition costs	16	(639,868)	(650,937)
Gain from derecognition of financial liabilities	10	(509,762)	(308,147)
Changes in deferred commission income	23	(269,565)	216,678
Impairment charge for receivables	9	2,099,509	721,822
Interest income /(expenses), net	11	(266,239)	(279,717)
Loss from disposal of property and equipment	14	17,543	41,348
Foreign exchange gain/(loss), net	12	(227,601)	255,431
Cash flows from operating activities before changes in working capital		**4,129,497**	**5,003,449**
Increase in insurance and reinsurance receivables		(9,007,903)	(3,368,697)
Increase in other insurance liabilities		5,759,620	966,448
Decrease in tax liabilities		(87,891)	(251,176)
Increase in other current assets		(582,905)	(314,985)
Increase/(Decrease) in other liabilities		386,681	(358,712)
Cash generated from operations		**597,099**	**1,676,327**
Increase in amount due from credit institutions		(410,727)	(560,411)
Interest received		495,249	156,155
Interest paid	25	(61,113)	(80,351)
Income tax paid		(303,843)	(217,500)
Net cash flows from operating activities		**316,665**	**974,220**
Investing activities			
Purchase of fixed and intangible assets		(262,314)	(279,039)
Disposal of fixed and intangible assets		31,447	-
Net cash used in investing activities		**(230,867)**	**(279,039)**
Financing activities			
Repayment of borrowed funds	25	(139,034)	(604,594)
Net cash from/ (used in) financing activities		**(139,034)**	**(604,594)**
Net Net Increase/(decrease) in cash and cash equivalents		**(53,236)**	**90,587**
Cash and cash equivalents at the beginning of year	21	**3,356,752**	**3,389,404**
Effect of changes in foreign exchange rate on cash and cash equivalents	12	(29,176)	(123,239)
Cash and cash equivalents at the end of year	21	**3,274,340**	**3,356,752**

Notes on pages 9-43 are the integral part of these financial statements.

1. General information

JSC Insurance Company Unison (the "Company") was established by the beginning of 2011. The Company possesses insurance license issued by the National Bank of Georgia for non-life insurance products. In 2013 the Company obtained license for life insurance products.

Insurance Company Unison offers non-life and life (except investment policies) insurance package for corporate and individual clients. It includes health, property, different transport means, travel, liability insurance etc.

Head office of the Company is located in Tbilisi. The Company's legal address is 19 Gamrekeli St., Tbilisi, Georgia.

As at 31 December 2018 the Company was 100%-owned by JSC Privat. JSC Privat is 90%-owned by the ultimate shareholder Vasil Akhrakhadze.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 *Basis of preparation*

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

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

The financial statements have been prepared under the historical cost bases, except for the measurement at fair value of revalued property and equipment - Building.

The reporting period for the Company is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

2.2 *Adoption of new or revised standards and interpretations*

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

IFRS 15 Revenue from Contracts with Customers.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. This standard is effective for annual periods beginning on or after 1 January 2018.

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

The five steps in the model are as follows:
- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;

2. Summary of significant accounting policies (continued)

- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The management of the Company does not assume that the new standard will have a significant impact on the Company's financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement"

Key features of the new standard are:

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

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

2. Summary of significant accounting policies (continued)

b) New standards, interpretations and amendments not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning 1 January 2018, and which the Company has not early adopted. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

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

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

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

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

Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.

The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.

Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of comprehensive income, but are recognised directly on the balance sheet.

Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.

Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

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

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

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. This means that a lessor continues to classify leases as operating or finance. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a ‘right of use’ asset and a corresponding liability for most lease contracts.

2. Summary of significant accounting policies (continued)

The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short term leases (i.e. those with a term of 12 months or less) and leases of low value items.

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

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. An entity is permitted to apply IFRS 16 before 1 January 2019 if it has previously applied IFRS 15 - Revenue from contracts with customers. The Company plans to adopt the new standard on the required effective date. The Company is currently assessing its possible impact on the financial statements.

2.3 *Transactions in Foreign currency*

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Georgian lari, which is the Company's functional and presentation currency.

b) Transactions and balances

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

Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within "Foreign exchange gains and losses".

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

	Official rate of the National Bank of Georgia		
	USD	EUR	CHF
Exchange rate as at 31.12.2018	2.6766	3.0701	2.7268
Exchange rate as at 31.12.2017	2.5922	3.1044	2.6584

2.4 *Insurance and investment contracts - classification*

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Contract Bonds issued by the Company are guaranteeing the performance of contractual obligations, contract Bonds can be:

- Advance Payment Bonds - Securing the proper use or repayment of the advance payments made to the Principal by the Beneficiary under or for the purposes of the contract, where such sum is advanced before the carrying out of works, the performance of services or the supply of provision of any goods pursuant to such contract. The bond usually decreases according to the progress of construction.

2. Summary of significant accounting policies (continued)

- Performance Bond - Protecting the Beneficiary against the financial loss if the Principal fails to fulfill the terms and conditions of the (underlying) written contract.
- Tender/Bid Bond: Used to pre-qualify contractors submitting proposals on potential contracts and serve to guarantee that the contractor, if awarded the construction project, will enter into a contract at the estimate submitted at the bid letting (as well be in the position to provide the required project bonds). The Beneficiary is provided protection up to the amount of the bid, which is a percentage of the total contract, if the bidder fails to honor its commitment.
- Customs Bonds (Same as we call Financial Risks insurance policies) - Guaranteeing the proper declaration and timely payment of customs and excise duty, import duty or re-exportation to the Customs & Excise Authorities at due date (temporary importation, transit procedures etc.).
- Contract bonds are accounted as insurance contracts.

2.5 *Deferred acquisition costs (DAC)*

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the terms of the policies as premium is earned;

The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is charged to revenue.

2.6 *Liability adequacy test*

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

2.7 *Reinsurance contracts held*

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

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

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

2. Summary of significant accounting policies (continued)

2.8 *Receivables and payables related to insurance contracts and investment contracts*

These include amounts to and from agents, brokers and insurance contract holders.

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

(i) Salvage and subrogation reimbursements

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

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

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

2.9 *Reserves for loss and loss adjustment expenses*

Reserves are established for the payment of losses and loss adjustment expenses (LAE) on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported but not settled insurance claims (RBNS) and reserves for incurred but not reported losses (IBNR).

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

The Company forms reserve for reported but not settled involving known claims of insurers (re-insurers) at the reporting date confirmed by the relevant statements.

The amount of reserve for reported but not settled insurance claims at the reporting date are the amount of reserved unpaid insurance money under known claims of insurers, with respect to which the decision on complete or partial failure in premiums payment was not made.

The amount of reserve for reported but not settled insurance claims is reported in the Company's balance sheet as liabilities.

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

IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported. The reserve for incurred but not reported insurance claims is formed by the Company at the end of reporting date.

The amount of reserve for incurred but not reported insurance claims is reflected in the Company's balance as liabilities.

2. Summary of significant accounting policies (continued)

2.10 *Financial instruments*

Financial assets

The Company classifies all its financial assets as loans and receivables and held-to-maturity investments. The Company determines the classification of its financial assets upon initial recognition.

(a) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment allowance are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income.

When a receivable is uncollectible, it is written off against the allowance account for financial assets and the amount of the loss is recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited in profit or loss.

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

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

The Company's loans and receivables comprise insurance and reinsurance receivables, subrogation receivables, reinsurance assets (except for the reinsurer's share in unearned premium reserve) and cash and cash equivalents. Cash and cash equivalents includes cash on current accounts and cash on hand.

(b) Held-to-maturity investments

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

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

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

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

The Company's held-to-maturity investments comprise amounts due from credit institutions.

In current period the Company does not have available-for-sale financial assets and financial assets at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

Financial liabilities

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

(a) *Fair value through profit or loss*

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

(a) It is classified as held for trading

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

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

(b) *Other financial liabilities*

Other financial liabilities include other insurance liabilities, insurance contract liabilities (except for the unearned premium reserve), borrowings and other payables which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

2.11 *Property and equipment*

Property and equipment, except for buildings, are stated at cost, less accumulated depreciation and provision for impairment, where required.

Following initial recognition, buildings are carried at revalued amount, being the fair value at the date of revaluation, less any accumulated depreciation. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case the increase is recognized in the statement of profit or loss to the extent of the decrease previously charged.

Depreciation on revalued buildings is charged to the statement of profit or loss.

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

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. Depreciation is calculated on a straight-line basis at the following useful lives:

Group	Useful life (year)
Buildings	50
Furniture and fixtures	5
Office equipment	5
Computers	5
Other	4-5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised on a net basis in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

2.12 *Intangible Assets*

Intangible assets are stated at cost, less accumulated amortization and provision for impairment, where required. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

Amortization is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Amortization is calculated on a straight-line basis over 7 years.

2.13 *Taxation*

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

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

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

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

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

Taxes other than income tax are recognised when obligating events have occurred. The obligating events are an event that raises a liability to pay a tax. Taxes are calculated in accordance with Georgian legislation.

2.14 *Operating leases*

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

2.15 *Recognition of expenses*

Expenses are recognized in the income statement if there arises any decrease of future economic benefit related to the decrease of an asset or increase of a liability that can be reliably assessed. Expenses incurred during the services rendered are recognized in proportionate calculation with recognized income.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic benefit any more, or if future economic benefit do not meet the requirements of recognition as an asset in the statement of financial position.

3. Critical accounting estimates and judgements

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims.

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position insurance liability. General insurance claims provisions are not discounted for the time value of money.

b) Deferred policy acquisition costs (DAC)

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. For long-term insurance contracts without fixed terms and investment contracts with DAC, acquisition costs are amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts in accordance with the accounting policy stated in Note 2.5. In current period company doesn't have any long-term insurance contracts.

c) Useful lives of property and equipment and intangible assets

Property and equipment and intangible assets are depreciated/amortised over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

d) Impairment of insurance and reinsurance receivables

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

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created based on an individual evaluation of assets subject to risks regarding financial assets being material individually and based on joint evaluation of financial assets not being material individually.

e) Fair value of buildings

Fair value of a group of buildings is determined by an independent valuator with relevant qualifications.

The above assessments are subject to subsequent changes based on new information and new market data. Last date of evaluation is December 31, 2016. The fair value is determined using comparative method.

4. Net earned premium

Net earned premium for the year ended 31 December 2018 can be presented as follows:

	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Property	15,797,354	(12,671,299)	3,126,055	(831,010)	2,295,045
Medical (Health)	9,274,790	-	9,274,790	314,905	9,589,695
Road Transport Means & third-party liability*	4,474,689	(88,837)	4,385,852	(22,844)	4,363,008
Third Party Liability	4,061,951	(2,479,678)	1,582,273	(360,307)	1,221,966
Aviation Transport Means (Hull) & third-party liability	3,982,411	(3,045,382)	937,029	(357,441)	579,588
Financial Risks	1,114,810	(523,810)	591,000	(381,053)	209,947
Suretyships	912,940	(624,413)	288,527	(137,425)	151,102
Travel	759,408	(10,446)	748,962	(30,219)	718,743
Cargo	756,600	(497,507)	259,093	(17,679)	241,414
Life insurance	662,546	-	662,546	(195,808)	466,738
Marine Transport Means (Hull) & third-party liability	287,607	(137,417)	150,190	(16,311)	133,879
Personal Accident	287,116	(800)	286,316	14,443	300,759
Total	**42,372,222**	**(20,079,589)**	**22,292,633**	**(2,020,749)**	**20,271,884**

*The company represents an insurer participating in the insurance system - a non-profit (non-commercial) legal entity "Compulsory Insurance center". Gross written and earned premium from the compulsory insurance policies for the year ended 31 December 2018 is GEL1,859,142 and GEL1,733,002, respectively.

Net earned premium by insurance type for the year ended 31 December 2017 can be presented as follows:

	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Medical (Health)	9,896,624	-	9,896,624	(3,645,325)	6,251,299
Property	2,928,501	(1,110,237)	1,818,264	301,960	2,120,224
Road Transport Means & third party liability*	2,363,808	(36,842)	2,326,966	236,024	2,562,990
Third Party Liability	847,496	(142,159)	705,337	218,793	924,130
Life insurance	699,838	-	699,838	(235,902)	463,936
Suretyships	497,733	(335,629)	162,104	29,021	191,125
Aviation Transport Means (Hull) & third party liability	418,172	(264,558)	153,614	(43,835)	109,779
Travel	385,964	(9,080)	376,884	(59,611)	317,273
Personal Accident	353,661	-	353,661	(81,793)	271,868
Cargo	349,947	(148,005)	201,942	19,775	221,717
Financial Risks	159,386	(10,928)	148,458	(37,603)	110,855
Marine Transport Means (Hull) & third party liability	147,739	(67,249)	80,490	(19,914)	60,576
Total	**19,048,869**	**(2,124,687)**	**16,924,182**	**(3,318,410)**	**13,605,772**

5. Commission income

Commission income for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Commission Income	902,364	1,674,907
Commission Income deferred (note 23)	(476,938)	(746,503)
Amortization of commission income (note 23)	746,503	529,825
Total	**1,171,929**	**1,458,229**

6. Net insurance claims

Net insurance claims for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Insurance claims paid	(12,809,565)	(9,604,614)
Gross Change in outstanding claims	(369,079)	1,876,256
Subrogation	597,926	615,589
Insurance claims and loss adjustment expenses	**(12,580,718)**	**(7,112,769)**
Reinsurer's share of general insurance claims paid	541,148	687,612
Reinsurer's share of change in outstanding claims	38,833	(1,705,600)
Insurance claims and loss adjustment expenses recovered from reinsurers	**579,981**	**(1,017,988)**
Net insurance claims incurred	**(12,000,737)**	**(8,130,757)**

7. Acquisition costs

Acquisition costs for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Acquisition Costs	(3,170,350)	(2,245,491)
Acquisition costs deferred (note 16)	1,959,870	1,320,002
Amortization of deferred acquisition cost (note 16)	(1,320,002)	(669,065)
Total	**(2,530,482)**	**(1,594,554)**

8. Expenses for marketing and administration

Expenses for marketing and administration for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Employee benefit expenses	(2,548,850)	(2,012,833)
Fee of Insurance State Supervision Service	(411,683)	-
Professional services*	(235,925)	(114,964)
Advertising and marketing expenses	(231,001)	(69,291)
Depreciation and amortization	(216,297)	(186,805)
Operating expenses of Compulsory Insurance Center	(202,113)	-
Rent	(151,138)	(173,859)
Communication and utility	(114,513)	(102,823)
Business trip and representative expenses	(81,683)	(69,763)
Office supply	(72,762)	(90,225)
Office maintenance	(51,731)	(74,738)
Tax expenses other than income tax	(31,772)	(47,793)
Bank fee	(17,285)	(25,948)
Other	(305,786)	(285,668)
Total	**(4,672,539)**	**(3,254,710)**

* For the years ended 31 December 2018 and 2017 audit and other professional service fee incurred toward an accounting company represent GEL40,856 and GEL38,381, respectively.

9. Impairment charge

Impairment charge for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Changes in allowances for Insurance receivables	(1,442,282)	(545,708)
Changes in allowances for receivables from salvage and subrogation reimbursements	(657,227)	(165,443)
Bad debt expense	-	(10,671)
Total	**(2,099,509)**	**(721,822)**

10. Other income/(expense), net

Other income/(expense), net for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Other income		
Gain from derecognition of financial liabilities	509,762	308,147
Commission income	116,072	-
Sale of salvage	12,389	15,402
No claim bonuses	-	79,683
Other	120,850	84,918
Total other income	**759,073**	**488,150**
Other expense		
Net loss from sale of property and equipment	(17,543)	-
No claim bonuses	-	(118,311)
Other	(17,728)	(83,871)
Total other expense	**(35,271)**	**(202,182)**
Other income/(expense), net	**723,802**	**285,968**

11. Interest income/(expense), net

Interest income/(expense), net for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Interest income		
Interest income from deposits	306,381	324,764
Interest income from current accounts	12,494	11,242
Interest income from issued loans	7,154	20,840
Total interest income	**326,029**	**356,846**
Interest expense		
Borrowed funds from financial institutions	(59,790)	(77,129)
Total interest expense	**(59,790)**	**(77,129)**
Interest income/(expense), net	**266,239**	**279,717**

12. Exchange rate difference gain/(loss), net

Exchange rate difference gain/(loss), net for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Cash and cash equivalents	(29,176)	(123,239)
Other financial instruments	256,777	(132,192)
Total	**227,601**	**(255,431)**

13. Taxation

Income tax expense for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Current income tax	(506,163)	(344,704)
Adjustment of prior year current tax	40,685	-
Effect of temporary differences	202,227	34,791
Total	**(263,251)**	**(309,913)**

Reconciliation of income tax expense for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Profit before tax	**1,358,188**	**1,672,412**
Applicable tax rate	15%	15%
Theoretical income tax	(203,728)	(250,862)
Effect of temporary differences	40,685	-
Effect of permanent difference previuosly recognised as temporary	(111,229)	(31,627)
Effect of permanent differences	11,021	(27,424)
Profit tax expense	**(263,251)**	**(309,913)**

Reconciliation of deferred income tax liability as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
At 1 January	**(206,843)**	**(241,634)**
Recognised in profit and loss		
Income tax expense	202,229	34,791
At 31 December	**(4,614)**	**(206,843)**

The tax effect of the movements in temporary differences for the year ended 31 December 2018 are as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss
	31.12.2018	31.12.2018	31.12.2018	31.12.2018
Property, equipment and intangible assets	-	(472,720)	(472,720)	15,784
Insurance and reinsurance receivables	381,806	-	381,806	172,526
Other current assets	179,940	-	179,940	28,768
Insurance contracts liabilities	-	(93,640)	(93,640)	(14,849)
Deferred income tax asset/(liability)	**561,746**	**(566,360)**	**(4,614)**	**202,229**
Set off tax	(561,746)	561,746	-	-
Deferred income tax liability, net	-	**(4,614)**	**(4,614)**	**202,229**

13 . Taxation (continued)

The tax effect of the movements in temporary differences for the year ended 31 December 2017 are as follows:

	Asset 31.12.2017	Liability 31.12.2017	Net 31.12.2017	(Charged)/ credited to profit or loss 31.12.2017
Property, equipment and intangible assets	-	(488,504)	(488,504)	(13,995)
Insurance and reinsurance receivables	209,280	-	209,280	50,229
Other current assets	151,172	-	151,172	24,816
Insurance contracts liabilities	-	(78,791)	(78,791)	(26,259)
Deferred income tax asset/(liability)	**360,452**	**(567,295)**	**(206,843)**	**34,791**
Set off tax	(360,452)	360,452	-	-
Deferred income tax liability, net	-	**(206,843)**	**(206,843)**	**34,791**

14. Property and equipment

Property and equipment as at 31 December 2018 and 2017 can be presented as follows:

Historical cost	Buildings	Furniture fixtures	Office equipment	Computer equipment	Other	Total
Balance at 31.12.2016	2,925,000	100,927	72,631	208,309	149,572	3,456,439
Additions	54,247	27,538	25,164	69,036	58,344	234,329
Disposals	(41,472)	(4,236)	-	-	(12,848)	(58,556)
Balance at 31.12.2017	2,937,775	124,229	97,795	277,345	195,068	3,632,212
Additions	-	12,918	31,614	49,691	34,855	129,078
Disposals	-	-	(13,193)	(6,595)	(47,767)	(67,555)
Balance at 31.12.2018	2,937,775	137,147	116,216	320,441	182,156	3,693,735
Accumulated depreciation						
Balance at 31.12.2016	-	(62,794)	(39,513)	(118,458)	(42,094)	(262,859)
Depreciation charge	(74,753)	(15,737)	(15,496)	(35,516)	(18,599)	(160,101)
Accumulated depreciation of disposal	11,431	1,021	-	-	4,756	17,208
Balance at 31.12.2017	(63,322)	(77,510)	(55,009)	(153,974)	(55,937)	(405,752)
Depreciation charge	(68,295)	(17,886)	(18,378)	(45,222)	(28,881)	(178,662)
Accumulated depreciation of disposal	-	-	1,927	2,322	14,316	18,565
Balance at 31.12.2018	(131,617)	(95,396)	(71,460)	(196,874)	(70,502)	(565,849)
Net book value						
Balance at 31.12.2017	2,874,453	46,719	42,786	123,371	139,131	3,226,460
Balance at 31.12.2018	2,806,158	41,751	44,756	123,567	111,654	3,127,886

The Company uses a revaluation model for buildings. The valuation was made by an independent appraiser who has relevant professional qualifications and experience in valuation of similar assets.

Property was valued based on the 3rd level information in the fair value hierarchy, namely using the market approach, since sufficient number of registered sales and proposals were available at the date of valuation. Appraisers used analogues in the valuation process, whose values were adjusted to consider differences between valuation object and analogues.

Book values of the building, without considering the revaluation model, at 31 December 2018 and 2017 are stated as GEL 1,311,898 and GEL1,338,671, respectively.

15. Intangible assets

Intangible assets as at 31 December 2018 and 2017 can be presented as follows:

Historical cost	Software	Other	Total
Balance at 31 December 2016	**169,714**	**48,977**	**218,691**
Additions	44,710	-	44,710
Disposals	(55,096)	-	(55,096)
Balance at 31 December 2017	**159,328**	**48,977**	**208,305**
Additions	91,464	41,770	133,234
Balance at 31 December 2018	**250,792**	**90,747**	**341,539**
Accumulated amortisation			
Balance at 31 December 2016	**(38,574)**	**(29,646)**	**(68,220)**
Amortization charge	(23,629)	(3,075)	(26,704)
Balance at 31 December 2017	**(62,203)**	**(32,721)**	**(94,924)**
Amortization charge	(26,936)	(10,699)	(37,635)
Balance at 31 December 2018	**(89,139)**	**(43,420)**	**(132,559)**
Net book value			
Balance at 31 December 2017	**97,125**	**16,256**	**113,381**
Balance at 31 December 2018	**161,653**	**47,327**	**208,980**

16. Deffered acquisition costs

Deferred acquisition costs as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
At 1 January	**1,320,002**	**669,065**
Expenses deferred	3,170,351	2,245,491
Amortization (note 7)	(2,530,483)	(1,594,554)
At 31 December	**1,959,870**	**1,320,002**

17. Insurance contract liabilities and reinsurance assets

Insurance contract liabilities and reinsurance assets as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
Insurance contract liabilities		
Unearned premium provision	25,053,272	17,867,429
Provisions for claims reported by policyholders	3,121,038	3,008,514
Provisions for claims incurred but not reported	402,687	146,132
Total	**28,576,997**	**21,022,075**
Reinsurance assets		
Reinsurer's share in unearned premium provision	12,960,274	7,795,180
Reinsurer's share in provisions for claims reported by policyholders	425,839	531,831
Reinsurer's share in provisions for claims incurred but not reported	209,024	64,199
Total	**13,595,137**	**8,391,210**
Insurance contract liabilities net of reinsurance		
Unearned premium provision	12,092,998	10,072,249
Provisions for claims reported by policyholders	2,695,199	2,476,683
Provisions for claims incurred but not reported	193,663	81,933
Total	**14,981,860**	**12,630,865**

Analysis of movements in insurance contract provisions can be presented as follows:

a) Analyses of movement in provision for unearned premium:

Provision for unearned premium, gross	2018	2017
Balance at 1 January	**17,867,429**	**23,950,511**
Gross written premium	42,372,222	19,048,869
Gross earned premium	(35,186,379)	(25,131,953)
Balance at 31 December	**25,053,272**	**17,867,429**
provision for unearned premium - reinsurer's share:		
Balance at 1 January	**7,795,180**	**17,196,672**
Reinsurer's share of gross written premium	20,079,589	2,124,687
Reinsurer's share of earned premium	(14,914,495)	(11,526,181)
Balance at 31 December	**12,960,274**	**7,795,180**
provision for unearned premium - (net of reinsurance)		
Balance at 1 January	**10,072,249**	**6,753,839**
Written premium, net	22,292,633	16,924,182
Earned premium, net	(20,271,884)	(13,605,772)
Balance at 31 December	**12,092,998**	**10,072,249**

17. Insurance contract liabilities and reinsurance assets (continued)

b) Provision for outstanding claims

Claims provision, gross	2018	2017
Balance of incurred but not reported claims at 1 January	146,132	325,381
Balance of notified claims at 1 January	3,008,514	4,705,521
Total balance of claims provisions at 1 January	3,154,646	**5,030,902**
Payements in respect of prior year claims	(2,222,646)	(1,561,915)
Change in estimates in respect of prior year claims	(510,179)	(2,738,770)
Expected cost of currrent year claims	13,688,823	10,467,128
Payements in respect of current year claims	(10,586,919)	(8,042,699)
Total balance of claims provisions at 31 December	**3,523,725**	**3,154,646**
Provisions for claims incurred but not reported	402,687	146,132
Provisions for claims notified by policyholders	3,121,038	3,008,514

Provision for claims - reinsurer's share:	2018	2017
Balance of incurred but not reported claims at 1 January	64,199	194,846
Balance of notified claims at 1 January	531,831	2,106,784
Total balance of claims provisions at 1 January	**596,030**	**2,301,630**
Payments in respect of prior year claims	(400,296)	(322,016)
Change in estimates in respect of prior year claims	(8,943)	(1,487,860)
Expected cost of current year claims	588,924	469,872
Payments in respect of current year claims	(140,852)	(365,596)
Total balance of claims provisions at 31 December	**634,863**	**596,030**
Provisions for claims incurred but not reported	209,024	64,199
Provisions for claims notified by policyholders	425,839	531,831

Provision for claims - (net of reinsurance)	2018	2017
Balance of incurred but not reported claims at 1 January	81,933	130,535
Balance of notified claims at 1 January	2,476,683	2,598,737
Total balance of claims provisions at 1 January	**2,558,616**	**2,729,272**
Payments in respect of prior year claims	(1,822,350)	(1,239,899)
Change in estimates in respect of prior year claims	(501,236)	(1,250,910)
Expected cost of current year claims	13,099,899	9,997,256
Payments in respect of current year claims	(10,446,067)	(7,677,103)
Total balance of claims provisions at 31 December	**2,888,862**	**2,558,616**
Provisions for claims incurred but not reported	193,663	81,933
Provisions for claims notified by policyholders	2,695,199	2,476,683

17. Insurance contract liabilities and reinsurance assets (continued)

Terms, assumptions and sensitivities

(1) Terms and conditions

The major classes of insurance written by the Company include Life, Property, Marine Transport Means (Hull), Cargo, Third Party Liability, Marine Third-Party Liability, Suretyships, Travel, Road Transport Means, Personal Accident, Motor Third Party Liability, Miscellaneous Financial Loss, Medical (Health).

Risks under these policies usually cover twelve-month duration.

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

For the calculation of the IBNR reserve including the liability adequacy test we refer to note 2 - summary of accounting policies (Insurance Contract Liabilities).

18. Insurance and reinsurance receivables

Insurance and reinsurance receivables as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	**31.12.2017**
Due from policyholders	25,989,144	16,293,673
Due from reinsurers	1,932,839	1,863,762
Total before impairment	**27,921,983**	**18,157,435**
Less-Allowances for impairment	(2,545,370)	(1,395,201)
Total	**25,376,613**	**16,762,234**

The Company creates impairment allowance for overdue receivables. Reconciliation of impairment allowance can be presented as follows:

	2018	**2017**
1-Jan	**(1,395,201)**	**(1,060,341)**
Insurance and reinsurance receivables' general allowance charge	(627,421)	(577,957)
Insurance and reinsurance receivables' specific allowance charge	(814,861)	32,249
Recognised as bad debts	292,113	210,848
31-Dec	**(2,545,370)**	**(1,395,201)**

The fair value of insurance and reinsurance receivables does not differ from their carrying amount as of December 31, 2018 and 2017.

Additional information about insurance and reinsurance receivables is disclosed in Note 27.

19. Other current assets

Other current assets as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
Financial assets		
Receivables from subrogation	1,274,556	1,242,477
Other receivables	76,421	119,875
Total financial assets, gross	**1,350,977**	**1,362,352**
Less-Allwances of impairement for subrogation receivables	(1,166,066)	(958,250)
Less-Allwances of impairement for other receivables	(33,537)	(49,566)
Total financial assets, net	**151,374**	**354,536**
Non-financial assets		
Prepayments*	360,667	222,387
Salvage	24,811	34,482
Total non-financial assets, net	**385,478**	**256,869**
Total	**536,852**	**611,405**

*GEL112,812 out of GEL360,667 represent prepaid expenses in non-commercial legal entity Compulsory Insurance Center.

Reconciliation of impairment allowance can be presented as follows:

	2018	2017
1-Jan	(958,250)	(792,807)
Recognised as bad debt	449,411	-
Allowances charge for subrogation receivables	(657,227)	(165,443)
31-Dec	**(1,166,066)**	**(958,250)**

20. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
Principal	6,388,520	5,884,294
Accrued interest	98,287	270,064
Total	**6,486,807**	**6,154,358**

Amounts due from credit institutions are represented by placements in Georgian Banks for more than 3 months. The Georgian State Insurance Supervisory Service established minimum level of deposits and cash on bank accounts dependent on the estimated insurance claims.

The fair value of amounts due from credit institutions does not differ from their carrying amount as of December 31, 2018 and 2017.

Additional information about amounts due from credit institutions is disclosed in Note 27.

21. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
Cash on current accounts with banks in other currencies	1,375,580	2,382,330
Cash on current accounts with banks in Georgian Lari	1,811,883	914,725
Petty cash	86,877	59,697
Total	**3,274,340**	**3,356,752**

The fair value of cash and cash equivalents does not differ from their carrying amount as of December 31, 2018 and 2017.

Additional information about cash and cash equivalents is disclosed in Note 27.

22. Other insurance liabilities

Other insurance liabilities as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
Reinsurance Payable	13,694,856	8,450,361
Commission Payable	2,407,571	1,525,744
Total	**16,102,427**	**9,976,105**

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

Additional information about other insurance liabilities is disclosed in Note 27.

23. Deffered commission income

Deferred commission income as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
As at 1 January	**746,503**	**529,825**
Commission income deferred	902,364	1,674,907
Amortization (note 5)	(1,171,929)	(1,458,229)
At 31 December	**476,938**	**746,503**

24. Tax Liability

According to the amendment to the tax legislation of Georgia, from January 1, 2016, taxes are paid on the unified treasury code. As a result, the Company's tax assets and liabilities are presented on a net basis in the financial statements prepared as at December 31, 2018 and 2017 as a tax liability with an amount of GEL194,841 and GEL121,096, respectively.

25. Borrowed funds

Borrowed funds as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018		31.12.2017	
	Current	Non-current	Current	Non-current
Principal	159,175	569,498	142,343	705,696
Accrued interest	986	-	2,540	-
Total	**160,161**	**569,498**	**144,883**	**705,696**

Reconciliation of borrowed funds as at 31 December 2018 can be presented as follows:

	Non- current borrowings	Current borrowings	Total
At 1 January 2018	**705,696**	**144,883**	**850,579**
Cash Flows	-	(200,147)	**(200,147)**
Non-cash flows			
Effects of foreign exchange	22,977	(3,540)	**19,437**
borrowings classified as non-current at 31 December 2017 becoming current during 2018	(159,175)	159,175	-
Interest accruing in the year	-	59,790	**59,790**
At 31 December 2018	**569,498**	**160,161**	**729,659**

Reconciliation of borrowed funds as at 31 December 2017 can be presented as follows:

	Non- current borrowings	Current borrowings	Total
At 1 January 2017	**1,406,389**	**109,002**	**1,515,391**
Cash Flows	(496,583)	(188,362)	**(684,945)**
Non-cash flows			
Effects of foreign exchange	(61,767)	4,771	**(56,996)**
borrowings classified as non-current at 31 December 2016 becoming current during 2017	(142,343)	142,343	-
Interest accruing in the year	-	77,129	**77,129**
At 31 December 2017	**705,696**	**144,883**	**850,579**

In 2013 the Company received borrowing from JSC Bazisbank with the amount of USD750,000. Annual interest rate of the borrowing is 8%. The real estate of the Company is pledged as collateral to above-mentioned borrowed funds with the following cadastral codes: 01.10.14.013.032.01.01.501; 01.10.14.013.032.01.01.502.

The fair value of borrowed funds does not differ from their carrying amount as of December 31, 2018 and 2017.

Additional information about borrowed funds is disclosed in Note 27.

26. Other liabilities

Other liabilities as at 31 December 2018 and 2017 can be presented as follows:

	31.12.2018	31.12.2017
Financial liabilities		
Deposited guarantees	297,307	290,692
Other liabilities	400,187	105,812
Salary and bonuses payable	31,631	-
Non-financial liabilities		
Received advances	78,284	37,435
Total	**807,409**	**433,939**

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

Additional information about other liabilities is disclosed in Note 27.

27. Risk management

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

27.1. Capital management objectives, policies and approach

The Company has established the following capital management policies and approach to manage the risks that affect its capital position.

The capital management objectives are:

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

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approach and monitor its activity, but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise. The Company's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the supervisory body's directives.

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

According to the Decree (dated on September 16, 2016) of the head of State Insurance Supervision Service of Georgia, the amount of supervisory capital of the insurer should exceed 50% of the solvency margin from January 1, 2017 to July 1, 2017. The amount of supervisory capital of the insurer must exceed 75% of the solvency margin from July 1, 2017 to January 1, 2018.

Also, according to the Decree (dated on September 16, 2016) of the head of State Insurance Supervision Service of Georgia, amount of supervisory capital of the insurer on all stages of insurance activities should exceed the minimum capital requirements, defined by the Decree №27 of the head of the Georgian State Insurance Supervision Service, (dated December 25, 2017) - "Approval of the rule of defining the minimum amount of equity at all stages of insurance activities on the territory of Georgia".

The minimum amount of capital defined by the Decree No.27 (dated on December 25, 2017) on "Approval of the rule of defining the minimum amount of equity at all stages of insurance activities on the territory of Georgia" should be following:

a) Life insurance: GEL4,200,000 - from December 31, 2018;

b) insurance (non-life) - except for the cumpulsory third party liability, suretyships and financial risks: - GEL3,400,000 - from December 31, 2018;

c) Insurance (Non-Life) - including cumpulsory third party liability, suretyships and financial risks: - GEL4,200,000 - from December 31, 2018;

d) Reinsurance: - GEL4,200,000 - from December 31, 2018;

As of December 31, 2018 and 2017, the Company met the above-mentioned legislative requirements.

27. Risk management (continued)

27.2. Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities.

This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims. The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Company establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

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

	2018	2017
Loss Ratio	59%	60%

The Company principally issues the following types of insurance contracts: property, motor third party liability, personal accident, road transport means, travel, cargo, suretyships, medical (health), third party liability, miscellaneous financial loss, marine third-party liability, marine transport means (hull). Risks under non-life insurance policies usually cover twelve months duration. For general insurance contracts the most significant risks arise from climate changes and natural disasters. For healthcare contracts the most significant risks arise from lifestyle changes, epidemic etc. These risks vary significantly in relation to the location, type and industry of the risk insured. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuit of claims, to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the insured sector and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims reserve, it is likely that the outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR and a reserve for reported claims not yet settled. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

27. Risk management (continued)

The table below represents the analysis of the Company's insurance claims on the basis of both the gross and net cost value of claims:

a) Before the effect of reinsurance, the loss development table is:

	2015	2016	2017	2018
Accident year	7,194,293	8,720,042	10,467,128	13,688,823
One year later	7,323,421	7,469,944	9,828,821	
Two years later	5,834,747	7,544,077		
Three years later	5,888,742			
Current estimate of cumulative claims incurred	**5,888,742**	**7,544,077**	**9,828,821**	**13,688,823**
Accident year	(4,038,285)	(6,111,834)	(8,042,699)	(10,586,919)
One year later	(4,900,728)	(7,507,849)	(9,699,374)	
Two years later	(5,066,625)	(7,540,650)		
Three years later	(5,599,795)			
Cumulative payments to date	**(5,599,795)**	**(7,540,650)**	**(9,699,374)**	**(10,586,919)**
Gross outstanding claims provision per the statement of financial position	**288,947**	**3,427**	**129,447**	**3,101,904**
Current estimation of surplus/(deficiency)	**(53,995)**	**(74,133)**	**638,307**	

b) Reinsurer's share in the loss development:

	2015	2016	2017	2018
Accident year	(2,456,240)	(1,208,486)	(469,872)	(588,924)
One year later	(2,282,554)	(704,731)	(164,530)	
Two years later	(1,298,450)	(972,924)		
Three years later	(1,326,656)			
Current estimate of reinsurer's share in cumulative claims incurred	**(1,326,656)**	**(972,924)**	**(164,530)**	**(588,924)**
Accident year	442,406	536,126	365,596	140,852
One year later	653,285	704,730	114,530	
Two years later	806,697	972,924		
Three years later	1,189,865			
Reinsurer's share in cumulative payments to date	**1,189,865**	**972,924**	**114,530**	**140,852**
Reinsurer's share in outstanding claims provision per the statement of financial position	**(136,791)**	**-**	**(50,000)**	**(448,072)**
Current estimation of surplus/(deficiency)	**28,206**	**268,193**	**(305,342)**	

27. Risk management (continued)

c) **After the effect of reinsurance, the loss development table is:**

	2015	2016	2017	2018
Accident year	4,738,053	7,511,556	9,997,256	13,099,899
One year later	5,040,865	6,765,213	9,664,291	
Two years later	4,536,297	6,571,153		
Three years later	4,562,086			
Current estimate of net cumulative claims incurred	4,562,086	6,571,153	9,664,291	13,099,899
Accident year	(3,595,879)	(5,575,708)	(7,677,103)	(10,446,067)
One year later	(4,247,443)	(6,803,119)	(9,584,844)	
Two years later	(4,259,928)	(6,567,726)		
Three years later	(4,409,930)			
Net cumulative payments to date	**(4,409,930)**	**(6,567,726)**	**(9,584,844)**	**(10,446,067)**
Net outstanding claims provision per the statement of financial position	**152,156**	**3,427**	**79,447**	**2,653,832**
Current estimation of surplus/(deficiency)	**(25,789)**	**194,060**	**332,965**	

As it can be seen from the claims development table above, the company has prudential estimation of outstanding insurance liabilities.

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

27. Risk management (continued)

27.3. Financial Risk

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

- Credit risk
- Liquidity risk
- Currency risk

Principal financial instruments

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

	31.12.2018	31.12.2017
Financial assets		
Insurance and reinsurance receivables	25,376,613	16,762,234
Reinsurance assets (except for the reinsurer's share in unearned premium reserve)	634,863	596,030
Amount due from credit institutions	6,486,807	6,154,358
Cash and cash equivalents	3,274,340	3,356,752
Total financial assets	**35,772,623**	**26,869,374**
financial liabilities		
Interest bearing financial liabilities	729,659	850,579
Insurance contract liabilities (except for unearned premium reserve)	3,523,725	3,154,646
Other insurance liabilities	16,102,427	9,976,105
Other liabilities	729,125	396,504
Total financial liabilities	**21,084,936**	**14,377,834**

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity.

A portfolio of financial assets and liabilities that are not traded in an active market is measured at the fair value using valuation technics. The selected measurement method uses observable market data, minimally based on non-market data and considers all the factors that market participants have taken into consideration when determining price. The best evidence of the fair value of a certain financial instrument at initial recognition is the price of the transaction - the fair value of the consideration paid or received.

If a company decides that the fair value at initial recognition differs from the transaction price and the fair value is not supported by the quoted price on the active markets of the similar assets or liabilities, also, its value is not based on the measurement technics that uses only observable market data, in such cases the financial instruments are initially measured at fair value, adjusted for the difference between this value and the transaction price. Any difference between this value and the initial value obtained through the measurement method will be later recognized in profit or loss during the life of the instrument, but no later than the assessment is fully based on the observable market data or when the transaction is closed.

27. Risk management (continued)

Fair value measurements are analysed by level in the fair value hierarchy as follows:

Level 1: are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes intruments that are evaluated using the following data: quoted market prices at active markets for similar financial instruments; Quoted prices for similar instruments that are less active; Or other methods of evaluation, within which all the important data is directly or indirectly observable, due to market data;

Level 3: measurements are valuations not based on solely observable market data. This category includes all the intruments within which the evaluation methods are not based on the observable data and unobservable inputs have a significant impact on the valuation of the instrument. This category includes instruments that are evaluated based on quoted prices for similar instruments within which significant adjustments or assumptions are required to reflect differences between instruments.

The fair value valuation used for financial instruments accounted at amortized cost was based on Level 1 and level 2 hierarchy. The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Amounts due to credit institutions were discounted at the Company's own incremental borrowing rate. The fair value of cash and cash equivalents is estimated based on level 1.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2018 and 2017.

Credit Risk

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

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

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

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

27. Risk management (continued)

The aging of insurance receivables as at 31 December 2018 can be presented as follows:

	Gross amount	Allowance	Insurance receivables, net of impairment
Receivables individually determined to be impaired	2,163,721	(1,208,422)	955,299

Receivables collectively determined to be Impaired:

	Gross amount	Allowance	Insurance receivables, net of impairment
Not past due	21,030,526	-	21,030,526
Past due 0-30 days	870,351	(43,518)	826,833
Past due 30-60 days	421,313	(42,131)	379,182
Past due 60-90 days	95,186	(14,278)	80,908
Past due 90-120 days	104,813	(26,203)	78,610
Past due 120-240 days	154,292	(92,575)	61,717
Past due 240-360 days	102,332	(71,633)	30,699
Past due more than 360 days	1,046,610	(1,046,610)	-
Receivables collectively determined to be impaired	**23,825,423**	**(1,336,948)**	**22,488,475**

The aging of insurance receivables as at 31 December 2017 was:

	Gross amount	Allowance	Insurance receivables, net of impairment
Receivables individually determined to be impaired	862,658	(393,561)	469,097

Receivables collectively determined to be Impaired:

	Gross amount	Allowance	Insurance receivables, net of impairment
Not past due	13 070 585	-	13 070,585
Past due 0-30 days	936,115	(46,805)	889,310
Past due 30-60 days	245,216	(24,522)	220,694
Past due 60-90 days	151,227	(22,684)	128,543
Past due 90-120 days	52,386	(13,097)	39,289
Past due 120-240 days	86,874	(52,124)	34,750
Past due 240-360 days	154,013	(107,809)	46,204
Past due more than 360 days	734,599	(734,599)	-
Receivables collectively determined to be impaired	**15,431,015**	**(1,001,640)**	**14,429,375**

27. Risk management (continued)

Liquidity Risk

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

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

To manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process.

An analysis of the liquidity as at 31 december 2018 is presented in the following table:

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities					
Interest bearing financial liabilities	39,598	120,563	569,498	-	**729,659**
Other insurance liabilities	1,659,106	8,024,067	5,937,810	481,444	**16,102,427**
Insurance contract liabilities (except for unearned premium reserve)	-	3,523,725	-	-	**3,523,725**
Other liabilities	729,125	-	-	-	**729,125**
Total	**2,427,829**	**11,668,355**	**6,507,308**	**481,444**	**21,084,936**

An analysis of the liquidity as at 31 december 2017 is presented in the following table:

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Financial liabilities					
Interest bearing financial liabilities	37,070	107,813	697,729	7,967	**850,579**
Other insurance liabilities	1,635,808	8,163,390	176,907	-	**9,976,105**
Insurance contract liabilities (except for unearned premium reserve)	-	3,154,646	-	-	**3,154,646**
Other liabilities	396,504	-	-	-	**396,504**
Total	**2,069,382**	**11,425,849**	**874,636**	**7,967**	**14,377,834**

Market Risk

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

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

Interest Rate Risk

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

27. Risk management (continued)

Currency risk

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

The Company's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

2018	GEL	USD USD 1 = 2.6766 GEL	EUR EUR 1 = 3.0701 GEL	CHF CHF 1 = 2.7268 GEL	Total
Financial assets					
Insurance and reinsurance receivables	11,217,649	14,021,223	137,703	38	**25,376,613**
Reinsurance assets (except for the reinsurer's share in unearned premium reserve)	634,863	-	-	-	**634,863**
Amount due from credit institutions	526,073	5,960,734	-	-	**6,486,807**
Cash and cash equivalents	1,898,760	1,250,716	119,405	5,459	**3,274,340**
Total financial assets	**14,277,345**	**21,232,673**	**257,108**	**5,497**	**35,772,623**
Financial liabilities					
Other insurance liabilities	4,199,499	11,631,773	117,033	99,829	**16,048,134**
Insurance contract liabilities (except for unearned premium reserve)	3,523,725	-	-	-	**3,523,725**
Other liabilities	676,636	52,191	298	-	**729,125**
Borrowings	-	729,659	-	-	**729,659**
Total financial liabilities	**8,454,153**	**12,413,623**	**117,331**	**99,829**	**21,084,936**
Open balance sheet position	**5,823,192**	**8,819,050**	**139,777**	**(94,332)**	

27. Risk management (continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

2017	GEL	USD USD 1 = 2.5922 GEL	EUR EUR 1 = 3.1044 GEL	CHF CHF 1 = 2.6584 GEL	Total
Financial assets					
Insurance and reinsurance receivables	9,180,929	7,396,662	184,643	-	**16,762,234**
Reinsurance assets (except for the reinsurer's share in unearned premium reserve)	596,030	-	-	-	**596,030**
Amount due from credit institutions	-	6,154,358	-	-	**6,154,358**
Cash and cash equivalents	974,422	2,280,191	101,011	1,128	**3,356,752**
Total financial assets	**10,751,381**	**15,831,211**	**285,654**	**1,128**	**26,869,374**
Financial liabilities					
Other insurance liabilities	2,425,109	7,342,501	64,031	144,464	**9,976,105**
Insurance contract liabilities (except for unearned premium reserve)	3,154,646	-	-	-	**3,154,646**
Other liabilities	295,606	99,436	1,462	-	**396,504**
Borrowings	-	850,579	-	-	**850,579**
Total financial liabilities	**5,875,361**	**8,292,516**	**65,493**	**144,464**	**14,377,834**
Open balance sheet position	**4,876,020**	**7,538,695**	**220,161**	**(143,336)**	

Currency risk sensitivity

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

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

	USD impact		EUR impact		CHF impact	
2018	**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**	**GEL/CHF 20%**	**GEL/CHF - 20%**
Profit/(loss)	1,507,739	(1,507,739)	44,032	(44,032)	(28,667)	28,667

	USD impact		EUR impact		CHF impact	
2017	**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**	**GEL/CHF 20%**	**GEL/CHF - 20%**
Profit/(loss)	1,763,810	(1,763,810)	27,955	(27,955)	(18,866)	18,866

28. Transactions with related parties

The related parties include owners, controlled, jointly controlled entities, entities under common control, and associates. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and other related parties are disclosed below:

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

	2018		2017	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:				
Short-term employee benefit	(510,250)	**(4,672,539)**	(519,390)	**(3,254,710)**

29. Commitments and contingencies

Legal proceedings - As at 31 December 2018 and 2017 the Company was not engaged in any material litigation proceedings. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

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

Operating environment - Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Bank Guarantee - The company owns bank guarantees in JSC Basis Bank for the participation in the electronic tenders announced by state organizations, which term of termination expires in 2019. The bank guarantees amounted to GEL237,854 and GEL122,956 as of December 31, 2018 and 2017 respectively.

30. Events After the Reporting Period

There have been no subsequent events that need to be disclosed in the financial statements.