JSC INSURANCE COMPANY UNISON

Financial Statements

Together with the Independent Auditor's Report

Year ended 31 December 2019

Contents:

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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 2019, 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 2019, 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 skepticism 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;

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

14 April 2020

JSC INSURANCE COMPANY UNISON

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

	Note	2019	2018
Gross written premiums		35,251,232	42,372,222
Reinsurer's share of gross written premium		(12,289,289)	(20,079,589)
Net written premium		**22,961,943**	**22,292,633**
Changes in provision for unearned premiums		614,107	(7,185,843)
Changes in the re-insurer's portion in provision for unearned premiums		(2,819,130)	5,165,094
Net insurance revenue	5	**20,756,920**	**20,271,884**
Commission income	6	739,709	1,171,929
Total insurance revenue		**21,496,629**	**21,443,813**
Insurance claims and loss adjustment expenses		(14,408,326)	(12,580,719)
Insurance claims and loss adjustment expenses recovered from reinsurers		3,161,061	579,982
Net insurance claims	7	**(11,247,265)**	**(12,000,737)**
Acquisition costs	8	(2,564,832)	(2,530,482)
Expenses for marketing and administration	9	(5,747,570)	(4,672,539)
Impairment charge	10	(330,205)	(2,099,509)
Other income and expenses/net	11	268,246	723,802
Total claims and expenses		**(19,621,626)**	**(20,579,465)**
Financial income and expenses	12	336,832	266,239
Exchange rate difference gain	13	618,214	227,601
Profit before tax		**2,830,049**	**1,358,188**
Income tax expense	14	(427,535)	(263,251)
Profit for the year		**2,402,514**	**1,094,937**
Other comprehensive income			
Revaluation of property and equipment		451,639	-
Effect of income tax		(67,746)	-
		383,893	-
Total comprehensive income for the year		**2,786,407**	**1,094,937**

These financial statements were approved by management on 14 April 2020 and were signed on its behalf by:

General director		V. Akhrakhadze
Financial Director		G. Mamatelashvili

Notes on pages 9-45 are the integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(In GEL)

	Note	31.12.2019	31.12.2018
Assets			
Property and equipment	15	3,968,062	3,127,886
Right-of-use assets	26	38,650	-
Intangible assets	16	177,515	208,980
Deferred acquisition costs	17	2,541,566	1,959,870
Reinsurance assets	18	11,650,206	13,595,137
Tax asset		77,353	-
Insurance and reinsurance receivables	19	25,855,167	25,376,613
Other assets	20	770,992	536,852
Amount due from credit institutions	21	7,908,357	6,486,807
Cash and cash equivalents	22	3,860,992	3,274,340
Total assets		**56,848,860**	**54,566,485**
Equity			
Statutory Capital		2,077,000	2,077,000
Revaluation reserve of buildings		1,559,970	1,205,116
Retained earnings		6,823,037	4,391,484
		10,460,007	**7,673,600**
Liabilities			
Insurance contract liabilities	18	28,996,749	28,576,997
Other insurance liabilities	23	12,436,126	16,102,427
Deferred commission income	24	570,950	476,938
Deferred income tax liability	14	68,559	4,614
Tax liabilities		-	194,841
Borrowed funds	25	719,774	729,659
Lease liability	26	34,290	-
Other liabilities	27	3,562,405	807,409
		46,388,853	**46,892,885**
Total equity and liabilities		**56,848,860**	**54,566,485**

Notes on pages 9-45 are the integral part of these financial statements.

JSC INSURANCE COMPANY UNISON

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2019

(In GEL)

	Share Capital	Retained Earning	Revaluation reserve of buildings	Total
31 December 2017	**2,077,000**	**3,267,508**	**1,234,155**	**6,578,663**
Profit for the year	-	1,094,937	-	**1,094,937**
Transfer from the revaluation reserve to retained earnings	-	29,039	(29,039)	**-**
31 December 2018	**2,077,000**	**4,391,484**	**1,205,116**	**7,673,600**
Profit for the year	-	2,402,514	-	**2,402,514**
Transfer from the revaluation reserve to retained earnings	-	29,039	(29,039)	**-**
Revaluation of buildings	-	**-**	383,893	**383,893**
31 December 2019	**2,077,000**	**6,823,037**	**1,559,970**	**10,460,007**

Notes on pages 9-45 are the integral part of these financial statements.

	Note	2019	2018
Cash flows from operating activities			
Profit before income tax		2,830,049	1,358,188
Adjustments for:			
Depreciation and amortization	9	259,619	216,297
Changes in unearned premium reserves	18	(614,107)	7,185,844
Change of reinsurer's share in unearned premium reserves	18	2,819,130	(5,165,095)
Changes in outstanding insurance claims	7	1,033,859	369,079
Changes in reinsurer's share of outstanding insurance claims	7	(874,199)	(38,833)
Changes in deferred acquisition costs	17	(581,696)	(639,868)
Gain from derecognition of financial liabilities	11	(98,994)	(509,762)
Changes in deferred commission income	24	94,012	(269,565)
Impairment charge	10	330,205	2,099,509
Interest income and expenses, net	12	(336,832)	(266,239)
Net loss from disposal of equipment	11	-	17,543
Gain from exchange rate difference	13	(618,214)	(227,601)
Cash flows from operating activities before changes in working capital		**4,242,832**	**4,129,497**
Decrease/(increase) in insurance and reinsurance receivables		515,346	(9,007,903)
(Decrease)/Increase in other insurance liabilities		(4,492,458)	5,759,620
Decrease in tax liabilities		(180,093)	(87,891)
Increase in other current assets		(421,928)	(582,905)
Increase in other liabilities		2,761,594	386,681
Cash generated from operations		**2,425,293**	**597,099**
Increase in amount due from credit institutions		(701,344)	(410,727)
Interest received		108,595	495,249
Interest paid	25;26	(67,093)	(61,113)
Income tax paid		(523,438)	(303,843)
Net cash flows from operating activities		**1,242,013**	**316,665**
Investing activities			
Purchase of fixed and intangible assets		(578,040)	(262,314)
Proceed from sale of fixed assets		-	31,447
Net cash used in investing activities		**(578,040)**	**(230,867)**
Financing activities			
Receipt of borrowed funds	25	881,369	-
Repayment of borrowed funds	25	(941,774)	(139,034)
Repayment of lease liability	26	(41,869)	-
Net cash from/(used in) financing activities		**(102,274)**	**(139,034)**
Net Increase/(decrease) in cash and cash equivalents		**561,699**	**(53,236)**
Cash and cash equivalents at the beginning of year	22	**3,274,340**	**3,356,752**
Effect of changes in foreign exchange rate on cash and cash equivalents	13	24,953	(29,176)
Cash and cash equivalents at the end of year	22	**3,860,992**	**3,274,340**

Notes on pages 9-45 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 following non-life insurance package for corporate and individual clients: 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 2019 and 2018 the Company was 100%-owned by JSC Privat. JSC Privat is 90%-owned and controlled by the ultimate shareholder Vasil Akhrakhadze.

2. 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).

The Company does not apply a new IFRS that is not yet mandatory if that IFRS permits early application.

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. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Company.

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

The financial statements are prepared based on historical cost, except for the buildings. The Company uses the revaluation model for the group of "buildings" and therefore they are valued at fair value in the financial statements.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the most appropriate application in applying the accounting policies. The estimations are reviewed periodically. The adjustments that led to changes in accounting estimates belong to the financial results of the period when these changes took place. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in Note 3.

Adoption of new or revised standards and interpretations

a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Company that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Company's accounting policies are:

- ***IFRS 16 Leases (IFRS 16);***

Details of the impact this standard has had are given in Note 31 below.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

2. Basis of preparation (continued)

The most significant of these is are as follows, which are all effective for the period beginning 1 January 2020 and 2023:

- IFRS 17 – Insurance contracts
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)
- IFRS 3 Business Combinations (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, 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.

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 2023.

The Company is currently assessing the possible impact of IFRS described above on its financial statements.

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 underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

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, acquisition costs are amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins in accordance with the accounting policy stated in Note 32.3.

c) 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 allowance 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.

d) Fair value of buildings

Fair value of a group of "Buildings" is determined by an independent valuator with relevant professional qualifications and experience in assessing property of a similar category.

e) Legal disputes

By the end of each accounting year, the Company makes a judgement about current court disputes, to measure the relevance of provision in the financial statements. In the measurement process, management considers current progress of litigation, legislative requirements, probable future loss, opinions of lawyers and other relevant specialists and practical results of such type of disputes.

The actual consequences of future periods can vary greatly from the results recorded in the financial statements.

4. Risk management

Risk management 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 foreign exchange rates. A summary description of the Company's risk management policies in relation to those risks follows.

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 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.

Minimum amount of 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 compulsory third party liability, suretyships and financial risks: - GEL3,400,000 - from December 31, 2018;

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

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

The minimum amount of the insurer's capital at all stages of the insurance business shall not be less than 1/3 of the amount received by the calculation of the insolvency margin for the insurer.

As of December 31, 2019 and 2018, the Company met the above-mentioned legislative requirements.

4. Risk Management (continued)

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:

	2019	2018
Loss Ratio	52%	56%

The Company principally issues the following types of insurance contracts: life, 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.

4. Risk Management (continued)

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

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

	2015	**2016**	**2017**	**2018**	**2019**
Accident year	7,194,293	8,720,042	10,467,128	13,688,823	13,779,848
One year later	7,323,419	7,469,944	9,828,821	13,061,092	
Two year later	5,834,747	7,544,077	11,401,067		
Three year later	5,888,742	7,559,512			
Four year later	5,915,887				
Current estimate of cumulative claims incurred	**5,915,887**	**7,559,512**	**11,401,067**	**13,061,092**	**13,779,848**
Accident year	(4,038,285)	(6,111,834)	(8,042,699)	(10,586,919)	(9,763,757)
One year later	(4,900,728)	(7,507,849)	(9,699,374)	(12,856,771)	
Two year later	(5,066,625)	(7,540,650)	(11,365,862)		
Three year later	(5,599,795)	(7,556,620)			
Four year later	(5,616,812)				
Cumulative payments to date	**(5,616,812)**	**(7,556,620)**	**(11,365,862)**	**(12,856,771)**	**(9,763,757)**
Gross outstanding claims provision	**299,075**	**2,892**	**35,205**	**204,321**	**4,016,091**
Current estimation of surplus/(deficiency)	**(27,145)**	**(15,435)**	**(1,572,246)**	**627,731**	

b) Reinsurer's share in the loss development:

	2015	**2016**	**2017**	**2018**	**2019**
Accident year	(2,456,240)	(1,208,486)	(469,872)	(588,924)	(1,504,516)
One year later	(2,282,554)	(704,731)	(164,530)	(500,896)	
Two years later	(1,298,450)	(972,924)	(1,699,139)		
Three years later	(1,326,656)	(1,175,437)			
Four year later	(1,334,107)				
Current estimate of reinsurer's share in cumulative claims incurred	**(1,334,107)**	**(1,175,437)**	**(1,699,139)**	**(500,896)**	**(1,504,516)**
Accident year	442,406	536,126	365,596	140,852	227,911
One year later	653,285	704,730	114,530	404,173	
Two years later	806,697	972,924	1,699,139		
Three years later	1,189,865	1,175,437			
Four year later	1,198,373				
Reinsurer's share in cumulative payments to date	**1,198,373**	**1,175,437**	**1,699,139**	**404,173**	**227,911**
Reinsurer's share in outstanding claims provision	**(135,734)**	**-**	**-**	**(96,723)**	**(1,276,605)**
Current estimation of surplus/(deficiency)	**7,451**	**202,513**	**1,534,609**	**(88,028)**	

4. Risk Management (continued)

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

	2015	2016	2017	2018	2019
Accident year	4,738,053	7,511,556	9,997,256	13,099,899	12,275,332
One year later	5,040,865	6,765,213	9,664,291	12,560,196	
Two year later	4,536,297	6,571,153	9,701,928		
Three years later	4,562,086	6,384,075			
Four year later	4,581,780				
Current estimate of net cumulative claims incurred	**4,581,780**	**6,384,075**	**9,701,928**	**12,560,196**	**12,275,332**
Accident year	(3,595,879)	(5,575,708)	(7,677,103)	(10,446,067)	(9,535,846)
One year later	(4,247,443)	(6,803,119)	(9,584,844)	(12,452,598)	
Two year later	(4,259,928)	(6,567,726)	(9,666,723)		
Three years later	(4,409,930)	(6,381,183)			
Four year later	(4,418,439)				
Net cumulative payments to date	**(4,418,439)**	**(6,381,183)**	**(9,666,723)**	**(12,452,598)**	**(9,535,846)**
Net outstanding claims provision	**163,341**	**2,892**	**35,205**	**107,598**	**2,739,486**
Current estimation of surplus/(deficiency)	**(19,694)**	**187,078**	**(37,637)**	**539,703**	

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.

4. Risk Management (continued)

Financial Risks

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

- Credit risk
- Liquidity risk
- Currency risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

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

	31.12.2019	31.12.2018
Financial assets		
Insurance and reinsurance receivables	25,855,167	25,376,613
Reinsurance assets (except for reinsurer's share in unearned premium reserve)	1,509,062	634,863
Other assets	341,900	151,374
Amount due from credit institutions	7,908,357	6,486,807
Cash and cash equivalents	3,860,992	3,274,340
	39,475,478	**35,923,997**
Financial liabilities		
Borrowed funds	719,774	729,659
Other insurance liabilities	12,436,126	16,102,427
Insurance contract liability (except for unearned premium reserve)	4,557,584	3,523,725
Lease liabilities	34,290	-
Other liabilities	3,495,867	729,125
	21,243,641	**21,084,936**

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.

4. Risk Management (continued)

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.

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 instruments 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 2 and level 3 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 2019 and 2018.

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, 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 insurance receivables. One of the 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.

4. Risk Management (continued)

The aging of insurance receivables as at 31 December 2019 can be presented as follows:

	Insurance receivables, gross	Allowance	Insurance receivables, net of impairment
Receivables individually determined to be impaired	3,551,490	(1,045,810)	2,505,680

Receivables collectively determined to be impaired:

	Insurance receivables, gross	Allowance	Insurance receivables net of impairment
Not past due	19,725,070	-	19,725,070
Past due 0-30 days	523,641	(26,182)	497,459
Past due 30-60 days	336,564	(33,656)	302,908
Past due 60-90 days	75,920	(11,388)	64,532
Past due 90-120 days	126,397	(31,599)	94,798
Past due 120-240 days	229,673	(137,804)	91,869
Past due 240-365 days	97,127	(67,989)	29,138
Past due more than a year	366,121	(366,121)	-
	21,480,513	**(674,739)**	**20,805,774**

The aging of insurance receivables as at 31 December 2018 was:

	Insurance receivables, gross	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:

	Insurance receivables, gross	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 a year	1,046,610	(1,046,610)	-
	23,825,423	**(1,336,948)**	**22,488,475**

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.

4. Risk Management (continued)

An analysis of the liquidity as at 31 December 2019 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					
Borrowed funds	38,136	118,567	563,071	-	**719,774**
Other insurance liabilities	1,618,204	6,288,380	3,850,688	678,854	**12,436,126**
Insurance contract liability (except for unearned premium reserve)	-	4,557,584	-	-	**4,557,584**
Lease liabilities	10,076	24,214	-	-	**34,290**
Other liabilities	3,495,867	-	-	-	**3,495,867**
	5,162,283	**10,988,745**	**4,413,759**	**678,854**	**21,243,641**

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					
Borrowed funds	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 liability (except for unearned premium reserve)	-	3,523,725	-	-	**3,523,725**
Other liabilities	729,125	-	-	-	**729,125**
	2,427,829	**11,668,355**	**6,507,308**	**481,444**	**21,084,936**

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 does not use derivatives to manage currency risk.

The Company’s exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

	GEL	USD	EUR	Other	Total
Financial assets					
Insurance and reinsurance receivables	14,929,985	10,398,989	517,285	8,908	**25,855,167**
Reinsurance assets (except for reinsurer’s share in unearned premium reserve)	1,509,062	-	-	-	**1,509,062**
Other assets	341,900	-	-	-	**341,900**
Amount due from credit institutions	-	7,908,357	-	-	**7,908,357**
Cash and cash equivalents	1,914,155	1,871,778	70,717	4,342	**3,860,992**
	18,695,102	**20,179,124**	**588,002**	**13,250**	**39,475,478**
Financial liabilities					
Other insurance liabilities	3,967,171	8,218,463	126,625	123,867	**12,436,126**
Insurance contract liability (except for unearned premium reserve)	4,557,584	-	-	-	**4,557,584**
Other liabilities	3,358,028	76,627	-	61,212	**3,495,867**
Lease liabilities	-	34,290	-	-	**34,290**
Borrowed funds	-	719,774	-	-	**719,774**
	11,882,783	**9,049,154**	**126,625**	**185,079**	**21,243,641**
	6,812,319	**11,129,970**	**461,377**	**(171,829)**	

4. Risk Management (continued)

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

	GEL	USD	EUR	Other	Total
Financial assets					
Insurance and reinsurance receivables	11,217,649	14,021,223	137,703	38	**25,376,613**
Reinsurance assets (except for reinsurer's share in unearned premium reserve)	634,863	-	-	-	**634,863**
Other assets	151,374	-	-	-	**151,374**
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**
	14,428,719	**21,232,673**	**257,108**	**5,497**	**35,923,997**
Financial liabilities					
Other insurance liabilities	4,253,792	11,631,773	117,033	99,829	**16,102,427**
Insurance contract liability (except for unearned premium reserve)	3,523,725	-	-	-	**3,523,725**
Other liabilities	676,636	52,191	298	-	**729,125**
Borrowed funds	-	729,659	-	-	**729,659**
	8,454,153	**12,413,623**	**117,331**	**99,829**	**21,084,936**
	5,974,566	**8,819,050**	**139,777**	**(94,332)**	

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 2019 and 2018:

	USD impact		**EUR impact**	
	20%	**- 20%**	**20%**	**- 20%**
Profit/(loss)	2,225,994	(2,225,994)	92,275	(92,275)

	USD impact		**EUR impact**	
	20%	**- 20%**	**20%**	**- 20%**
Profit/(loss)	1,763,810	(1,763,810)	27,955	(27,955)

5. Net earned premium

Net earned premium for the year ended 31 December 2019 can be presented as follows:

	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium reserve	Net insurance revenue
Medical (Health)	9,786,200	-	9,786,200	(776,600)	9,009,600
Property	6,144,833	(4,675,604)	1,469,229	665,638	2,134,867
Road Transport Means & third-party liability*	6,064,359	(97,029)	5,967,330	(1,115,673)	4,851,657
Aviation Transport Means (Hull) & third-party liability	5,831,481	(4,038,484)	1,792,997	(883,143)	909,854
Third Party Liability	2,666,570	(1,834,512)	832,058	403,241	1,235,299
Financial Risks	1,154,095	(513,865)	640,230	(244,903)	395,327
Suretyships	1,138,459	(731,934)	406,525	(135,705)	270,820
Travel	815,310	(17,139)	798,171	42,005	840,176
Personal Accident	608,438	-	608,438	(13,033)	595,405
Life insurance	505,133	-	505,133	(251,737)	253,396
Cargo	434,442	(346,256)	88,186	53,074	141,260
Marine Transport Means (Hull) & third-party liability	101,912	(34,466)	67,446	51,813	119,259
	35,251,232	**(12,289,289)**	**22,961,943**	**(2,205,023)**	**20,756,920**

Net earned premium by insurance type 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 reserve	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
	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 2019 is GEL2,261,523 and GEL2,238,008, respectively. 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.

6. Commission income

Commission income can be presented as follows:

	2019	2018
Commission Income	833,721	902,364
Commission Income deferred (Note 24)	(570,950)	(476,938)
Amortization (Note 24)	476,938	746,503
	739,709	**1,171,929**

7. Net insurance claims

Net insurance claims can be presented as follows:

	2019	2018
Insurance claims paid	(13,733,084)	(12,809,565)
Gross Change in outstanding claims	(1,033,859)	(369,079)
Subrogation and recovery	358,617	597,926
Insurance claims and loss adjustment expenses	**(14,408,326)**	**(12,580,718)**
Reinsurer's share of insurance claims paid	2,286,862	541,148
Reinsurer's share of change in outstanding claims	874,199	38,833
Insurance claims and loss adjustment expenses recovered from reinsurers	**3,161,061**	**579,981**
Net insurance claims incurred	**(11,247,265)**	**(12,000,737)**

8. Acquisition costs

Acquisition costs can be presented as follows:

	2019	2018
Acquisition costs	(3,146,528)	(3,170,350)
Acquisition costs deferred (Note 17)	2,541,566	1,959,870
Amortization of deferred acquisition cost (note 17)	(1,959,870)	(1,320,002)
	(2,564,832)	**(2,530,482)**

9. Expenses for marketing and administration

Expenses for marketing and administration can be presented as follows:

	2019	2018
Employee benefit expenses	(3,405,661)	(2,548,850)
Fee of Insurance State Supervision Service	(359,748)	(411,683)
Professional services*	(287,992)	(235,925)
Advertising and marketing expenses	(228,984)	(231,001)
Depreciation and amortization charge	(259,619)	(216,297)
Operating expenses of Compulsory Insurance Center	(260,396)	(202,113)
Rent	(159,377)	(151,138)
Communication and utility expenses	(123,073)	(114,513)
Business trip and representative expenses	(67,750)	(81,683)
Office supply	(85,762)	(72,762)
Office maintenance	(46,867)	(51,731)
Tax expenses	(35,300)	(31,772)
Bank fee	(35,821)	(17,285)
Other	(391,220)	(305,786)
	(5,747,570)	**(4,672,539)**

* For the years ended 31 December 2019 and 2018 audit and other professional service fee incurred toward an accounting companies represent GEL50,619 and GEL40,856, respectively.

10. Impairment charge

Impairment charge can be presented as follows:

	2019	2018
Changes in allowances for Insurance receivables	(145,130)	(1,442,282)
Changes in allowances for receivables from subrogation reimbursements	(145,100)	(657,227)
Changes in allowances for other assets	(39,975)	-
	(330,205)	**(2,099,509)**

11. Other income, net

Other income, net can be presented as follows:

	2019	2018
Other income		
Gain from derecognition of financial liabilities	98,994	509,762
Commission income	76,796	116,072
Sale of salvage	-	12,389
Other	101,864	120,850
	277,654	**759,073**
Other expense		
Net loss from sale of equipment	-	(17,543)
Other	(9,408)	(17,728)
	(9,408)	**(35,271)**
	268,246	**723,802**

12. Interest income, net

Interest income, net for can be presented as follows:

	2019	2018
Interest income		
Interest income from deposits	391,875	306,381
Interest income from issued loans	2,487	7,154
Interest income from current accounts	9,758	12,494
	404,120	**326,029**
Interest expense		
Borrowed funds from financial institutions	(62,404)	(59,790)
Lease liability	(4,884)	-
	(67,288)	**(59,790)**
	336,832	**266,239**

13. Exchange rate difference gain, net

Exchange rate difference gain, net can be presented as follows:

	2019	2018
Cash and cash equivalents	24,953	(29,176)
Other financial instruments	593,261	256,777
	618,214	**227,601**

14. Taxation

Income tax expense can be presented as follows:

	2019	2018
Current tax	(431,336)	(506,163)
Adjustment of prior year current tax	-	40,685
Effect of temporary differences	3,801	202,227
Profit tax expense	**(427,535)**	**(263,251)**

Reconciliation of income tax expense can be presented as follows:

	2019	2018
Profit before tax	**2,830,049**	**1,358,188**
Applicable tax rate	15%	15%
Theoretical income tax	(424,507)	(203,728)
Adjustment of prior year current tax	-	40,685
Effect of permanent difference previously recognised as temporary	-	(111,229)
Effect of permanent differences	(3,028)	11,021
Profit tax expense	**(427,535)**	**(263,251)**

Reconciliation of deferred income tax liability as at 31 December 2019 and 2018 can be presented as follows:

	2019	2018
At 1 January	**(4,614)**	**(206,843)**
Recognised in profit and loss		
Income tax benefit	3,801	202,229
Recognised in other comprehensive income		
Income tax expense	(67,746)	
At 31 December	**(68,559)**	**(4,614)**

The tax effect of the movements in temporary differences for the year ended 31 December 2019 are as follows:

	Asset	Liability	Net	(Charged)/ credited to profit or loss	(Charged)/ credited to OCI
Property, equipment and intangible assets	-	(598,698)	(598,698)	(58,232)	(67,746)
Insurance and reinsurance receivables	403,575	-	403,575	21,769	-
Other assets	208,061	-	208,061	28,121	-
Right-of-use assets	-	(5,798)	(5,798)	(5,798)	-
Lease liability	5,144	-	5,144	5,144	-
Insurance contracts liabilities	-	(80,843)	(80,843)	12,797	-
Tax asset/(liabilities)	**616,780**	**(685,339)**	**(68,559)**	**3,801**	**(67,746)**
Set off of tax	(616,780)	616,780	-	-	-
Net tax liabilities	**-**	**(68,559)**	**(68,559)**	**3,801**	**(67,746)**

14. Taxation (continued)

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
Property, equipment and intangible assets	-	(472,720)	(472,720)	15,784
Insurance and reinsurance receivables	381,806	-	381,806	172,526
Other assets	179,940	-	179,940	28,768
Insurance contracts liabilities	-	(93,640)	(93,640)	(14,849)
Tax asset/(liabilities)	**561,746**	**(566,360)**	**(4,614)**	**202,229**
Set off of tax	(561,746)	561,746	-	-
Net tax liabilities	**-**	**(4,614)**	**(4,614)**	**202,229**

15. Property and equipment

Property and equipment can be presented as follows:

Historical cost	Buildings	Furniture & fixtures	Office equipment	Computer equipment	Other	Total
At 31 December 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)**
At 31 December 2018	**2,937,775**	**137,147**	**116,216**	**320,441**	**182,156**	**3,693,735**
Additions	472,720	6,584	8,463	77,468	-	**565,235**
Revaluation Surplus	252,101	-	-	-	-	**252,101**
Disposals	-	-	-	(441)	-	**(441)**
At 31 December 2019	**3,662,596**	**143,731**	**124,679**	**397,468**	**182,156**	**4,510,630**
Accumulated depreciation						
At 31 December 2017	**(63,322)**	**(77,510)**	**(55,009)**	**(153,974)**	**(55,937)**	**(405,752)**
Depreciation for the year	(68,295)	(17,886)	(18,378)	(45,222)	(28,881)	**(178,662)**
Accumulated depreciation of disposal	-	-	1,927	2,322	14,316	**18,565**
At 31 December 2018	**(131,617)**	**(95,396)**	**(71,460)**	**(196,874)**	**(70,502)**	**(565,849)**
Depreciation for the year	(70,667)	(14,824)	(14,788)	(51,540)	(24,427)	**(176,246)**
Revaluation Surplus	199,537	-	-	-	-	**199,537**
Accumulated depreciation of disposals	-	-	-	(10)	-	**(10)**
At 31 December 2019	**(2,747)**	**(110,220)**	**(86,248)**	**(248,424)**	**(94,929)**	**(542,568)**
Net book value						
At 31 December 2018	**2,806,158**	**41,751**	**44,756**	**123,567**	**111,654**	**3,127,886**
At 31 December 2019	**3,659,849**	**33,511**	**38,431**	**149,044**	**87,227**	**3,968,062**

15. Property and equipment (continued)

The Company uses a revaluation model for group of “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 enough 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. The Company conducted revaluation of property at 31 December 2019.

Book values of the building, without considering the revaluation model, at 31 December 2019 and 2018 are stated as GEL1,285,660 and GEL1,311,898 respectively.

16. Intangible assets

Intangible assets can be presented as follows:

Historical cost	**Software**	**Other**	**Total**
At 31 December 2017	**159,328**	**48,977**	**208,305**
Additions	91,464	41,770	**133,234**
At 31 December 2018	**250,792**	**90,747**	**341,539**
Additions	13,258	-	**13,258**
At 31 December 2019	**264,050**	**90,747**	**354,797**
Accumulated amortization			
At 31 December 2017	**(62,203)**	**(32,721)**	**(94,924)**
Amortization for the year	(26,936)	(10,699)	**(37,635)**
At 31 December 2018	**(89,139)**	**(43,420)**	**(132,559)**
Amortization for the year	(34,024)	(10,699)	**(44,723)**
At 31 December 2018	**(123,163)**	**(54,119)**	**(177,282)**
Net book value			
At 31 December 2018	**161,653**	**47,327**	**208,980**
At 31 December 2019	**140,887**	**36,628**	**177,515**

17. Deferred acquisition costs

Deferred acquisition costs can be presented as follows:

	2019	**2018**
At 1 January	**1,959,870**	**1,320,002**
Expenses deferred (Note 8)	3,146,528	3,170,350
Amortization (Note 8)	(2,564,832)	(2,530,482)
At 31 December	**2,541,566**	**1,959,870**

18. Insurance contract liabilities and reinsurance assets

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

	31.12.2019	31.12.2018
Insurance contract liabilities		
Unearned premium provision	24,439,165	25,053,272
Provisions for claims reported by policyholders	3,972,566	3,121,038
Provisions for claims incurred but not reported (IBNR)	585,018	402,687
	28,996,749	**28,576,997**
Reinsurance assets		
Reinsurers' share in unearned premium provision	10,141,144	12,960,274
Reinsurers' share in provisions for claims reported by policyholders	1,228,723	425,839
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	280,339	209,024
	11,650,206	**13,595,137**
Insurance contract liabilities net of reinsurance		
Unearned premium provision	14,298,021	12,092,998
Provisions for claims reported by policyholders	2,743,843	2,695,199
Provisions for claims incurred but not reported (IBNR)	304,679	193,663
	17,346,543	**14,981,860**

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	2019	2018
At 1 January	**25,053,272**	**17,867,429**
Gross premium Written	35,251,232	42,372,222
Gross earned premium	(35,865,339)	(35,186,379)
At 31 December	**24,439,165**	**25,053,272**
provision for unearned premium - reinsurer's share:		
At 1 January	**12,960,274**	**7,795,180**
Reinsurer's share of gross written premium	12,289,289	20,079,589
Gross reinsurer's earned premium	(15,108,419)	(14,914,495)
At 31 December	**10,141,144**	**12,960,274**
provision for unearned premium, net of reinsurance		
At 1 January	**12,092,998**	**10,072,249**
Reinsurer's share of gross written premium	22,961,943	22,292,633
Gross reinsurer's earned premium	(20,756,920)	(20,271,884)
At 31 December	**14,298,021**	**12,092,998**

18. Insurance contract liabilities and reinsurance assets (continued)

b) Provision for outstanding claims

Outstanding claims, gross	2019	2018
Balance of incurred but not reported at 1 January	402,687	146,132
Balance of notified claims provision at 1 January	3,121,038	3,008,514
Total balance of outstanding claims at 1 January	**3,523,725**	**3,154,646**
Payments in respect of prior year claims	(3,969,327)	(2,222,646)
Change in estimates in respect of prior year claims	987,095	(510,179)
Expected cost of current year claims	13,779,848	13,688,823
Payments in respect of current year claims	(9,763,757)	(10,586,919)
Outstanding claims reported by policyholders at 31 December	**4,557,584**	**3,523,725**
Outstanding claims incurred but not reported at 31 December	585,018	402,687
Outstanding claims notified by policyholders at 31 December	3,972,566	3,121,038

Outstanding claims, reinsurer's share:	2019	2018
Balance of incurred but not reported at 1 January	209,024	64,199
Balance of notified claims provision at 1 January	425,839	531,831
Total outstanding claims at 1 January	**634,863**	**596,030**
Payments in respect of prior year claims	(2,058,951)	(400,296)
Change in estimates in respect of prior year claims	1,656,545	(8,943)
Expected cost of current year claims	1,504,516	588,924
Payments in respect of current year claims	(227,911)	(140,852)
Total outstanding claims at 31 December	**1,509,062**	**634,863**
Balance of incurred but not reported at 31 December	280,339	209,024
Balance of notified claims provision at 31 December	1,228,723	425,839

Outstanding claims, net of reinsurance	2019	2018
Balance of incurred but not reported at 1 January	193,663	81,933
Balance of notified claims provision at 1 January	2,695,199	2,476,683
Total outstanding claims at 1 January	**2,888,862**	**2,558,616**
Payments in respect of prior year claims	(1,910,376)	(1,822,350)
Change in estimates in respect of prior year claims	(669,450)	(501,236)
Expected cost of current year claims	12,275,332	13,099,899
Payments in respect of current year claims	(9,535,846)	(10,446,067)
Total outstanding claims at 31 December	**3,048,522**	**2,888,862**
Balance of incurred but not reported at 31 December	304,679	193,663
Balance of notified claims provision at 31 December	2,743,843	2,695,199

Terms, assumptions and sensitivities

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 liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. The provisions are refined consistently as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported. Outstanding claims provisions are not discounted for the time value of money. For the calculation of the IBNR reserve including the liability adequacy test we refer to Note 32 – summary of accounting policies (Insurance Contract Liabilities).

19. Insurance and reinsurance receivables

Insurance and reinsurance receivables can be presented as follows:

	31.12.2019	31.12.2018
Due from policyholders	25,032,003	25,989,144
Due from reinsurers	2,543,713	1,932,839
	27,575,716	**27,921,983**
Less-Allowances for impairment	(1,720,549)	(2,545,370)
	25,855,167	**25,376,613**

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

	2019	2018
January 1	**(2,545,370)**	**(1,395,201)**
Insurance and reinsurance receivables' general allowance charge	788,749	(627,421)
Insurance and reinsurance receivables' specific allowance charge	(933,879)	(814,861)
Recognised as bad debt	969,951	292,113
December 31	**(1,720,549)**	**(2,545,370)**

The fair value of insurance and reinsurance receivables does not differ from their carrying amount as of December 31, 2019 and 2018.

Additional information about insurance and reinsurance receivables is disclosed in Note 4.

20. Other assets

Other assets can be presented as follows:

	31.12.2019	31.12.2018
Financial assets		
Receivables from subrogation reimbursements	1,195,701	1,274,556
Issued loans	89,295	-
Other receivables	174,357	76,421
	1,459,353	**1,350,977**
Less-Allowances of impairment for subrogation	(1,117,453)	(1,166,066)
Less-Allowances of impairment for other receivables	-	(33,537)
	341,900	**151,374**
Non-financial assets		
Prepayments*	428,091	360,667
Salvage	76,906	24,811
	504,997	**385,478**
Less-Allowances of impairment for prepayments	(75,905)	-
	429,092	**385,478**
	770,992	**536,852**

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

20. Other assets (continued)

Reconciliation of impairment allowance can be presented as follows:

	2019	2018
January 1	(1,166,066)	(958,250)
Recognised as bad debt	193,713	449,411
Allowances change for subrogation receivables	(145,100)	(657,227)
December 31	**(1,117,453)**	**(1,166,066)**

21. Amounts due from credit institutions

Amounts due from credit institutions can be presented as follows:

	31.12.2019	31.12.2018
Principal	7,508,758	6,388,520
Accrued interest	399,599	98,287
	7,908,357	**6,486,807**

The fair value of amounts due from credit institutions does not differ from their carrying amount as of December 31, 2019 and 2018.

Additional information about amounts due from credit institutions is disclosed in Note 4.

22. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	31.12.2019	31.12.2018
Cash on current accounts with banks in Georgian Lari	1,874,811	1,811,883
Cash on current accounts with banks in other currencies	1,946,837	1,375,580
Petty cash	39,344	86,877
	3,860,992	**3,274,340**

The fair value of cash and cash equivalents does not differ from their carrying amount as of December 31, 2019 and 2018.

Additional information about cash and cash equivalents is disclosed in Note 4.

23. Other insurance liabilities

Other insurance liabilities can be presented as follows:

	31.12.2019	31.12.2018
Reinsurance Payable	10,149,523	13,694,856
Commission Payable	2,286,603	2,407,571
	12,436,126	**16,102,427**

The fair value of other insurance liabilities does not differ from their carrying amount as of December 31, 2019 and 2018.

Additional information about other insurance liabilities is disclosed in Note 4.

24. Deferred commission income

Deferred commission income can be presented as follows:

	2019	2018
As at 1 January	**476,938**	**746,503**
Income deferred	833,721	902,364
Amortization (Note 6)	(739,709)	(1,171,929)
At 31 December	**570,950**	**476,938**

25. Borrowed funds

Borrowed funds can be presented as follows:

	31.12.2019		31.12.2018	
	Current	**Non-current**	**Current**	**Non-current**
Principal	156,541	563,071	159,175	569,498
Accrued interest	162	-	986	-
	156,703	**563,071**	**160,161**	**569,498**

Reconciliation of borrowed funds as at 31 December 2019 can be presented as follows:

	Non-current borrowings	Current borrowings	Total
At 1 January 2019	**569,498**	**160,161**	**729,659**
Cash Flows	96,279	(218,893)	**(122,614)**
Non-cash flows			
Effects of foreign exchange	53,835	(3,510)	**50,325**
Borrowings classified as non-current at 31 December 2018 becoming current during 2019	(156,541)	156,541	**-**
Interest accruing in period	-	62,404	**62,404**
At 31 December 2019	**563,071**	**156,703**	**719,774**

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 period	-	59,790	**59,790**
At 31 December 2018	**569,498**	**160,161**	**729,659**

The company received borrowings from JSC Terabank for refinancing existing credit liability. It closed borrowings received from JSC Bazisbank in the current reporting year.

25. Borrowed funds (continued)

According to loan agreement the company has some covenants:

- If company's borrowing service ratio (DSCR) calculated based on consolidated data will not be less than 1.3 within the agreement period, the Company will be eligible to distribute dividends to partners after notifying the bank in writing 5 days before the distribution
- Borrower's DEBT/EQUITY ratio must not be less than 60%
- JSC Terabank should be registered as a first-class mortgagee on real estate no later than 5 working days after the loan is issued.

In case of breach of covenants the bank is eligible to increase an annual interest rate by 4% or request a loan in full.

The Company meets covenants mentioned above as at 31 December 2019.

The real estate of the Company where central office is located is pledged as collateral to above-mentioned borrowed funds, address: St. Gamrekeli 19, Tbilisi. Annual effective interest rate of the borrowing is 8.5%.

The fair value of borrowed funds does not differ from their carrying amount as of December 31, 2019 and 2018.

Additional information about borrowed funds is disclosed in Note 4.

26. Leases

The company has office rent in Batumi. The rental payment is fixed during the lease term and is determined in USD. The lease term is estimated at 2 years.

Right-of-use assets can be presented as follows:

	Buildings
At 1 January 2019	**77,300**
Amortization	(38,650)
At 31 December 2019	**38,650**

Lease liabilities can be presented as follows:

	Buildings
At 1 January 2019	**71,639**
Interest expense	4,884
Lease payments	(46,753)
Foreign exchange movements	4,520
At 31 December 2019	**34,290**

The Company adopted IFRS 16 without restatement of comparative figures. The requirements for the transitional date (January 1, 2019) are explained in Note - 31. Note 32 shows the accounting policy that the Company will use in relation to the leases in the reporting periods starting after January 1, 2019.

27. Other Liabilities

Other liabilities can be presented as follows:

	31.12.2019	31.12.2018
Financial liabilities		
Deposited bank guarantee	3,313,810	297,307
Other liabilities	181,832	400,187
Salary and bonuses payable	225	31,631
Non-financial liabilities		
Received advances	66,538	78,284
	3,562,405	**807,409**

The fair value of other liabilities does not differ from their carrying amount as of December 31, 2019 and 2018.

Additional information about other liabilities is disclosed in Note 4.

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, 2019 and 2018 are the following amounts which were recognized in transactions with related parties:

	2019		2018	
	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 Short-term employee benefit	(591,264)	**(5,747,570)**	(510,250)	**(4,672,539)**

The Company issued a loan to its parent company in 2019. The amount of the loan at the end of the reporting year is GEL89,295.

29. Commitments and contingencies

Legal proceedings - As of December 31, 2019 and 2018, the Company has litigations. The management of the Company believes that after the completion of these lawsuits, the Company will not incur material losses. Lawsuits related to insurance cases are considered when creating an insurance provision.

Regulations of the State Insurance Supervision Service - 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: GEL7,200,000 - from December 31, 2020;

b) insurance (non-life) - except for the compulsory third party liability, suretyships and financial risks: - GEL4,800,000 - from December 31, 2020;

c) Insurance (Non-Life) - including compulsory third party liability, suretyships and financial risks: - GEL7,200,000 - from December 31, 2020;

d) Reinsurance: - GEL7,200,000 - from December 31, 2020;

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.

Management Report - According to the Law on Accounting, Reporting and Auditing (Article 7), a company has an obligation to prepare and submit to the state regulatory body a management report, together with the independent auditor's report, no later than October 1 of the following reporting year. The Company has not fulfilled this obligation by the date of publication of these financial statements.

Loan covenants - The Company has received a loan from JSC Tera Bank. Under the terms of the loan agreement, the Company has financial and non-financial covenants, the non-performance of which may result in unconditional repayment of the loan (see Note 25).

30. Events After the Reporting Period

In the end of 2019 year New Corona virus (COVID-19) was spread in China. Though cases were reported to the World Health Organization on 31 December 2019, its announcement of coronavirus as a global health emergency was not made until 31 January 2020 as significant development and spread of the coronavirus did not take place until January 2020. Therefore, the coronavirus effect is a non-adjusting event in accordance with IFRS. The development of coronavirus will not affect the forecasts and assumptions used in the preparation of the financial statements as of December 31, 2019.

The World Health Organization has declared the rapidly spreading coronavirus outbreak a pandemic. As of 21 March 2020, the Government of Georgia announced state of emergency for the reason to prevent spreading the virus.

The effects of the coronavirus may be very wide spread and relate to many industries. Coronavirus may affect entities in nearly every sector, due to the following impacts:

- Reduced consumer demand for goods and services due to lost income and/or restrictions on consumers' ability to move freely;
- Lack of investment in capital improvements and construction reducing demand for many goods and services;
- Reduction in market prices for commodities and financial assets, including equity and debt instruments; and
- Disruption of global supplies chains due to restrictions placed on the movement of people and goods.

On the financial statement approval date, the exact effects of coronavirus cannot be made by the management, as time elapses and the effects of the outbreak change and evolve, but one of the precise significant effects can be the following:

- Reduction of the written and earned premium received from insurance contracts;
- Increased impairment of insurance receivables due to deteriorating solvency of policyholders;
- Increase in medical claims as due to the devaluation of GEL exchange rate, the cost of medical services will increase. Clinics import drugs and other medical materials, in addition to this, prices of locally produced medical supplies will increase too, as they also import most of their raw materials. The Company does not expect significant negative changes in non-health claims;
- Impairment of long-term assets, which may be caused by a reduction in future cash flows received from the use of the asset and a decrease in fair value less cost to sell.

31. Effect of changes on accounting policies

The Company adopted IFRS 16 with a transition date of 1 January 2019. The Company has chosen not to restate comparatives on adoption of standard. Changes have been processed at the date of initial application (1 January 2019) and recognised in the opening equity balances.

Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Company does not have leasing activities acting as a lessor.

Transition method and practical expedients Utilised

The Company elected to apply the practical expedient not to reassess whether a contract is or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

(b) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for leases.

On adoption of IFRS 16, the Company recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating lease	Office space: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at 1 January 2019. The Company’s incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 8.65%.

31. Effect of changes on accounting policies (continued)

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 January 2019:

		31 December 2018		
		As originally presented	**IFRS 16**	**1 January 2019**
Assets				
Right-of-use assets	(a)	-	77,300	77,300
Other assets (paid advances)	(b)	5,661	(5,661)	-
liabilities				
Lease liabilities	(c)	-	71,639	71,639

a) The adjustment to right-of-use assets is for operating type of lease with an amount of GEL77,300.

b) Adjustment of the Right-of-use assets by advance payments on the operating lease with an amount of GEL 5,661.

c) The following table reconciles the minimum lease commitments disclosed in the Company's 31 December 2018 financial statements to the amount of lease liabilities recognised on 1 January 2019:

	01.01.2019
Minimum operating lease commitment at 31 December 2018	197,584
Less: short-term leases not recognized under IFRS 16	(111,247)
Undiscounted lease payments	**86,337**
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(9,037)
Lease liabilities for leases classified as operating type under IAS 17	**77,300**
Less: paid advances on operating lease under IAS 17	(5,661)
Lease liability as at 1 January 2019	**71,639**

The Company assessed the effect of the change in accounting policy on the deferred income tax liability, however, by the date of transition to the requirements of the standard, it did not have a significant impact, therefore the Company did not make adjustments to the balance.

32. 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.

32.1. Transactions in Foreign 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.

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 2019 and 2018 the closing rate of exchange used for translating foreign currency balances was:

	31.12.2019	**31.12.2018**
USD	2.8677	2.6766
EUR	3.2095	3.0701
CHF	2.9488	2.7268

32.2 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.
- 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.

32. Summary of significant accounting policies (continued)

32.3 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 profit and loss.

32.4 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.

32.5 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.

32.6 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).

32. Summary of significant accounting policies (continued)

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.

32.7 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.

32.8 Financial instruments

Financial assets

The Company classifies its financial assets into following categories:

- loans and receivables
- held-to-maturity investments
- available-for-sale financial assets
- financial assets at fair value through profit or loss

The Company determines the classification of its financial assets upon initial recognition.

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), other financial assets and cash and cash equivalents. Cash and cash equivalents include cash on current accounts and cash on hand.

Loans and receivables 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 allowance for impairment. Impairment allowance is 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 allowance being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

32. Summary of significant accounting policies (continued)

For the receivables which are reported net, such allowance is 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.

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.

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 liabilitie*s

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

32. Summary of significant accounting policies (continued)

32.9 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.

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.

32.10 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.

32.11 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.

32. Summary of significant accounting policies (continued)

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.

32.12 Leases

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 31. The following policies apply subsequent to the date of initial application, 1 January 2019.

Identifying the lease

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Company assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

Initial recognition

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Leases are recognized on the Company's balance sheet as follows:

- an asset representing the right to use the underlying asset over the lease term,
- a liability for the obligation to pay the lease payments.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

32. Summary of significant accounting policies (continued)

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

When the variable element of future lease payments dependent on a rate or index is revised, it adjusts the carrying amount of the lease liability to reflect the payments to make over the remaining terms, which are discounted at the same discount rate that applied on lease commencement. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss;

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Company. It considers all relevant factors that create an economic incentive to exercise the renewal option.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The discount rate is not determined for the Company as a whole, but for each individual lease.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

32. Summary of significant accounting policies (continued)

Determination of lease payments

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

Short-term leases and leases of low-value assets

The Company applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

32.13 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.

32.14 Employee benefit expenses

Salaries, bonuses and non-monetary benefits are recognized on an accrual basis in the period when the Company received the relevant services from the employee.

32.15 Subsequent events

Events after the reporting period and events before the date of financial statements authorization for issue that provide additional information about the Company's financial position. Events after the reporting period that do not affect the financial position of the Company at the balance sheet date are disclosed in the notes to the financial statements when material.