

**JSC RISK MANAGEMENT AND INSURANCE
COMPANY GLOBAL BENEFITS GEORGIA**

Financial Statements

With Independent Auditor's Report

Year ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

Opinion

We have audited the financial statements of **JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA**, (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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 resulting in this independent auditor's report is

A handwritten signature in blue ink, appearing to read 'Ivane Zhuzhunashvili', with a stylized flourish at the end.

Ivane Zhuzhunashvili

For and on behalf of BDO LLC (SARAS-A-720718)

Tbilisi, Georgia

5 May 2020

JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

	Notes	2019	2018
Gross written premiums on insurance contracts		19,901,957	16,607,653
Reinsurer's share of gross written premium on insurance contracts		(2,219,291)	(3,534,825)
Net written premium		17,682,666	13,072,828
Changes in provision for unearned premiums		(703,329)	(2,246,114)
Changes in the re-insurers portion in provision for unearned premiums		57,258	456,463
Net insurance revenue	5	17,036,595	11,283,177
Commission income	6	256,519	180,569
Total revenue		17,293,114	11,463,746
Insurance claims and loss adjustment expenses		(12,943,976)	(10,928,829)
Insurance claims and loss adjustment expenses recovered from reinsurers		618,536	3,379,936
Net insurance claims	7	(12,325,440)	(7,548,893)
Acquisition costs	8	(502,035)	(399,094)
Expenses for marketing and administration	9	(4,518,889)	(3,172,895)
Change in provision for impairment		7,412	(13,911)
Other expense, net	10	(475,236)	(436,286)
Interest income, net		550,478	296,501
Exchange rate difference loss, net		(32,902)	(24,320)
Profit/ (Loss) before tax		(3,498)	164,848
Income tax benefit	11	8,511	218,400
Total comprehensive income for the year		5,013	383,248

These financial statements were approved by management on 5 May 2020 and were signed on its behalf by:

Financial Director

K. Amaglobeli

Notes on pages 9-42 are the integral part of these financial statements.

JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

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JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(In GEL)

	Notes	31.12.2019	31.12.2018
Assets			
Property and equipment	12	860,517	559,749
Right-of-use assets	13	463,303	-
Intangible assets	14	839,367	607,109
Deferred income tax asset	11	226,911	218,400
Deferred acquisition costs	15	291,529	242,582
Reinsurance assets	16	1,171,648	1,716,932
Insurance and reinsurance receivables	17	7,352,114	7,042,853
Other assets	18	246,099	222,580
Amount due from credit institutions	19	5,689,376	5,806,299
Cash and cash equivalents	20	632,608	426,251
Total assets		17,773,472	16,842,755
Equity and liabilities			
Equity			
Share Capital	21	6,440,624	6,440,624
Preference shares	21	300,000	-
Share premium		391,833	391,833
Accumulated loss		(1,319,247)	(1,324,260)
Total equity		5,813,210	5,508,197
Liabilities			
Lease liability	13	469,895	-
Insurance contract liabilities	16	6,888,862	6,805,033
Other insurance liabilities	22	3,945,186	4,111,532
Deferred commission income	23	183,204	132,141
Other liabilities	24	473,115	285,852
Total liabilities		11,960,262	11,334,558
Total equity and liabilities		17,773,472	16,842,755

Notes on pages 9-42 are the integral part of these financial statements.

JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2019

(In GEL)

	Share Capital	Preference shares	Share Premium	Accumulated loss	Total
Balance at 31 December 2017	2,310,000	1,000,000	375,900	(1,707,508)	1,978,392
Issue of preference shares		500,000			500,000
Conversion of preference share into ordinary shares	1,500,000	(1,500,000)	-	-	-
Issue of ordinary shares	2,630,624		15,933	-	2,646,557
Total comprehensive income for the year	-		-	383,248	383,248
Balance at 31 December 2018	6,440,624	-	391,833	(1,324,260)	5,508,197
Issue of preference shares	-	300,000	-	-	300,000
Total comprehensive income for the year	-	-	-	5,013	5,013
Balance at 31 December 2019	6,440,624	300,000	391,833	(1,319,247)	5,813,210

Notes on pages 9-42 are the integral part of these financial statements.

JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(In GEL)

	Notes	2019	2018
Cash flows from operating activities			
Profit/ (Loss) for the year before income tax		(3,498)	164,848
Adjustments for:			
Depreciation and amortization	9	446,706	108,282
Changes in unearned premium provision	5	703,329	2,246,114
Change of reinsurer's share in unearned premium provision	5	(57,258)	(456,463)
Changes in insurance claims provision	7	(619,500)	1,266,966
Changes in insurance claims provision reinsurer's share	7	602,542	(718,419)
Changes in deferred acquisition costs	8	(48,947)	33,296
Disposal of fixed assets		-	62,608
Changes in deferred commission income	6	51,063	(22,832)
Changes in impairment provision of insurance, re-insurance receivables		(7,412)	13,911
Interest income, net		(550,478)	(296,501)
Loss from exchange rate difference, net		32,902	24,320
Cash flows from operating activities before changes in working capital		549,449	2,426,130
Increase in insurance and reinsurance receivables		(301,849)	(3,851,107)
Increase/(decrease) in other insurance liabilities		(178,791)	2,039,042
Reinsurance assets		-	5,473
Increase in other assets		(47,039)	(172,008)
Increase in other liabilities		187,262	119,354
(Increase)/decrease in amount due from credit institutions		369,252	(3,022,569)
Cash flows from/used in operations		578,284	(2,455,685)
Interest received of deposit		349,790	296,501
Net cash flows from/ (used in) operating activities carried forward		928,074	(2,159,184)
Investing activities			
Purchase of fixed and intangible assets		(799,920)	(733,073)
Loans issued		-	(500,000)
Receipt of loans issued		-	500,000
Net cash used in investing activities		(799,920)	(733,073)
Financing activities			
Owners contribution		-	3,100,001
Issue of preference shares		300,000	-
Principal paid for lease liability		(170,156)	-
Interest paid		(11,200)	-
Interest paid on lease liability		(40,441)	-
Net cash from financing activities		78,203	3,100,001
Net Increase in cash and cash equivalents		206,357	207,744
Cash and cash equivalents at the beginning of year	20	426,251	218,259
Effect of changes in foreign exchange rate on cash and cash equivalents		-	248
Cash and cash equivalents at the end of year	20	632,608	426,251

Notes on pages 9-42 are the integral part of these financial statements.

JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

1. General information

JSC RISK MANAGEMENT AND INSURANCE COMPANY GLOBAL BENEFITS GEORGIA (the “Company”) was established at the end of 2016 year.

The Company develops insurance programs for corporate sector. The Company offers International products as well as products with international coverage created specifically for Georgian market. Underrating of Health and Life insurance products is created on the platform of Global Benefits Group.

“Geo Investments” LLC holds 78.76% and 82.42% of the shares of the Company As at 31 December 2019 and 2018, respectively. Ultimate shareholder with 100% of shares of “Geo Investments” LLC is Davit Bezhuashvili.

Shares of the Company as at 31 December 2019 and 2018 can be presented as follows:

Share holder	31.12.2019		31.12.2018	
	Shares	Preference shares	Shares	Preference shares
Geo Investments LLC	78.76%	-	82.42%	-
Geo Investments LLC	-	4.45%	-	-
Nino Kobakhidze	7.88%	-	8.25%	-
G.B.G.I Limited	5.14%	-	5.38%	-
Kakhaber Amaghlobeli	3.77%	-	3.95%	-

Legal address of the Company is N5, Chanturia str., accommodation N3, Tbilisi, Georgia.

2. Basis of preparation

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).

Significant accounting policies have been made in preparing the financial Statements are provided in Note 29.

The financial statements have been prepared under the historical cost bases. The reporting period for the Company is the calendar year from January 1 to December 31.

The preparation of financial Statements in compliance with IFRS requires the use of certain critical accounting estimates, that effects on the carrying amounts of assets and liabilities, as well as income and expenses recognized during the accounting period. It also requires from management to exercise judgment in the most appropriate application in applying the accounting policies. Actual results may be different from currently made estimates. Adjustments that result changes in accounting estimates are recognized in the accounting period that they relate to. The areas where significant judgments and estimates have been made in preparing the financial Statements and their effect are disclosed in Note 3.

Going Concern

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

2. Basis of preparation (Continued)

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 IFRS 16 have had are given in Note 28 below. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

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

- *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 Insurance contracts*

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

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with IFRS 9 (see above). According to the mentioned approach the Company is using IAS 39 instead IFRS 9 for the periods beginning before 1 January 2023.

The Company is currently assessing the impact of these new accounting standards and amendments.

Other

The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

3. Critical accounting estimates and judgements

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

Estimates and assumptions

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

The estimation of the ultimate liability arising from claims made under general 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 general insurance contracts, estimates must 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 before the ultimate claims cost can be specified. For some type of policies, IBNR claims form most of the statement of financial position insurance liability.

b) Impairment of insurance and reinsurance receivables

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

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of joint or individual assessment of future cash flows to be received from financial assets.

c) Taxation

Tax legislation and accounting for provisions. The Company's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the statement of financial position date. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date. Actual charges could differ from these estimates.

d) Legal proceedings

The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

Because of the inherent uncertainty in this evaluation process, actual result may be different from the originally estimated result, which is disclosed in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management

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

4.1. Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing 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 approval and monitoring of activities, but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default and insolvency on the 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 National Bank of Georgia directives.

Regulatory requirements

The insurance sector in Georgia is regulated by the Insurance State Supervision Service of Georgia ("ISSSG"). The ISSSG imposes minimum capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins.

According to the ISSSG directive №27, issued on 25 December 2017, the minimum capital from 31 December 2018 throughout the period should be at least either 1/3 of RSM or GEL 4,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances.

The Company makes certain adjustments to the IFRS equity in the financial position in order to arrive to the ISSSG prescribed capital. The Company manages its capital requirements by preventing shortfalls between reported and required capital levels on a regular basis.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or inject further capital. The Company was in compliance with the externally imposed capital requirements at the end of the reporting period and no changes were made to its objectives, policies and processes from the previous year for managing capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)

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

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

The Regulatory Capital is determined based on the IFRS equity, adjusted for, for example, investments in subsidiaries and associates, unsecured loans and borrowings, etc. as prescribed by the ISSSG directive №16. As at 31 December 2019, the Company was in compliance with the level of Regulatory Capital in excess of RSM.

4.2. Insurance risk

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

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

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

	2019	2018
Loss Ratio	72%	67%

Insurance contracts of the Company are comprised of: health and life, property, cargo, aviation, vehicle, personal accident, travel, liability insurance, third-party liability insurance. Duration of this kind of contracts is mainly 12 months.

For property 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 and so on. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)

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, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The table below sets out the concentration of general insurance contract liabilities by type of contract:

31.12.2019	Gross insurance contract Liability	Reinsurer's Share	Net insurance contract liability
Medical	2,604,786	69,888	2,534,898
Road Transport Means	1,773,940	230,270	1,543,670
Property insurance	1,037,091	370,102	666,989
Compulsory TPL	306,379	-	306,379
Personal Accident	294,859	123,972	170,887
Other third-party liability related to road transport	247,312	18,907	228,405
Life insurance	142,236	38,675	103,561
Financial Risks	130,855	41,247	89,608
Other third-party liability	122,823	83,759	39,064
Railway transport insurance	95,448	95,448	-
Professional liability insurance	77,908	68,863	9,045
Cargo	24,394	21,782	2,612
Passenger, driver or crew personal accident insurance	23,166	6,934	16,232
Customs liability insurance/ Financial risk	3,105	-	3,105
Employer's liability insurance	2,319	1,213	1,106
Travel	1,184	588	596
Guarantees related to state procurement	1,057	-	1,057
	6,888,862	1,171,648	5,717,214

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)

31.12.2018	Gross insurance contract Liability	Reinsurer's Share	Net insurance contract liability
Medical	3,389,532	669,139	2,720,393
Road Transport Means	1,090,500	172,604	917,896
Property insurance	1,049,104	328,441	720,663
Personal Accident	434,522	395,719	38,803
Compulsory TPL	275,096	-	275,096
Financial Risks	174,276	54,885	119,391
Other third-party liability related to road transport	161,790	4,479	157,311
Life insurance	116,660	47,963	68,697
Passenger, driver or crew personal accident insurance	44,118	413	43,705
Professional liability insurance	30,907	27,658	3,249
Other third-party liability	17,497	4,067	13,430
Travel	7,337	1,779	5,558
Guarantees related to state procurement	6,032	4,387	1,645
Employer's liability insurance	3,453	2,563	890
Other liabilities	3,118	2,651	467
Cargo	1,091	184	907
	6,805,033	1,716,932	5,088,101

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 provision, it is likely that the outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR.

The estimation of IBNR is generally subject to more 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)**4.3. Financial Risk**

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

- Credit risk
- Liquidity risk
- Market risk
 - *Currency risk*
 - *Interest rate risk*

Principal financial instruments

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

	31.12.2019	31.12.2018
Reinsurance assets (Except re-share in unearned premium provision)	213,986	816,528
Insurance and reinsurance receivables	7,352,114	7,042,853
Amount due from credit institutions	5,689,376	5,806,299
Cash and cash equivalents	632,608	426,251
Total financial assets	13,888,084	14,091,931
Lease liability	469,895	-
Insurance contract liabilities (Except unearned premium provision)	1,061,719	1,681,219
Other insurance liabilities	3,945,186	4,111,532
Other liabilities	469,581	277,890
Total financial liabilities	5,946,381	6,070,641

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The Company has no financial assets or liabilities that according to their functions should be measured at fair value; accordingly, they are not presented under the IFRS 7 fair value measurement hierarchy.

According to the management's estimation carrying amounts of financial assets and financial liabilities approximate their fair values.

The fair value of cash and cash equivalents was determined using level 1 measurement, fair values of other financial assets and liabilities were determined using level 2 and level 3 measurement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)**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.

The Company's Management has established a credit policy under which each customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references.

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

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

Reinsurance

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

The Company analyzes ageing of insurance receivables for managing credit risks. Ageing analysis of insurance receivables as at 31 December 2019 and 2018 can be presented as follows:

31.12.2019	Amount	Provision	Insurance and reinsurance receivables net of impairment
Receivables collectively determined to be impaired:			
Not past due	6,646,088	-	6,646,088
Past due 0-3 months	659,896	-	659,896
Past due 3 - 6 months	48,284	(4,828)	43,456
Past due 6 - 9 months	3,455	(1,036)	2,419
Past due 9 - 12 months	510	(255)	255
Past due more than 1 years	379	(379)	-
Receivables collectively determined to be impaired	7,358,612	(6,498)	7,352,114

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)

31.12.2018	Amount	Provision	Insurance and reinsurance receivables net of impairment
Receivables collectively determined to be impaired:			
Not past due	3,008,765	-	3,008,765
Past due 0-3 months	3,705,724	-	3,705,724
Past due 3 - 6 months	308,358	(5,767)	302,591
Past due 6 - 9 months	21,927	(3,837)	18,090
Past due 9 - 12 months	6,710	(507)	6,203
Past due more than 1 years	5,279	(3,799)	1,480
Receivables collectively determined to be impaired	7,056,763	(13,910)	7,042,853

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.

The Company performs regular monitoring of future expected cash flows in order to manage liquidity risk, which is a part of assets/liabilities management process.

An analysis of the liquidity is presented in the following table:

31.12.2019	Up to 1 year	From 1 to 5 years	Total
Financial liabilities			
Lease liabilities	253,791	259,885	513,677
Insurance contract liability (except Unearned premium provision)	1,061,719	-	1,061,719
Other insurance liabilities	3,945,186	-	3,945,186
Other liabilities	469,581	-	469,581
	5,730,277	-	5,990,163
31.12.2018	Up to 1 year	From 1 to 5 years	Total
Financial liabilities			
Insurance contract liability (except Unearned premium provision)	1,681,219	-	1,681,219
Other insurance liabilities	4,111,532	-	4,111,532
Other liabilities	277,890	-	277,890
	6,070,641	-	6,070,641

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)**Market risk**

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

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

- Interest Rate Risk

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

- Currency risk

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

The Company's exposure to foreign currency exchange rate risk is presented in the table below:

31.12.2019	<u>GEL</u>	<u>USD</u>	<u>EUR</u>	<u>Total</u>
Financial assets				
Reinsurance assets (Except re-share in unearned premium provision)	213,986	-	-	213,986
Insurance and reinsurance receivables	3,694,966	3,337,259	319,889	7,352,114
Amount due from credit institutions	5,689,376	-	-	5,689,376
Cash and cash equivalents	630,870	1,738	-	632,608
	<u>10,229,198</u>	<u>3,338,997</u>	<u>319,889</u>	<u>13,888,084</u>
Financial liabilities				
Lease liabilities	-	469,895	-	469,895
Insurance contract liability (except Unearned premium provision)	1,061,719	-	-	1,061,719
Other insurance liabilities	688,304	2,474,316	782,566	3,945,186
Other liabilities	326,175	138,045	5,361	469,581
	<u>2,076,198</u>	<u>3,082,256</u>	<u>787,927</u>	<u>5,946,381</u>
Open balance sheet position	<u>8,153,000</u>	<u>256,741</u>	<u>(468,038)</u>	

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For the year ended 31 December 2019

(In GEL)

4. Risk management (Continued)

	GEL	USD	EUR	Total
Financial assets				
Reinsurance assets (Except re-share in unearned premium provision)	816,528	-	-	816,528
Insurance and reinsurance receivables	4,714,717	2,207,860	120,276	7,042,853
Amount due from credit institutions	5,806,299	-	-	5,806,299
Cash and cash equivalents	409,772	1,980	14,499	426,251
	<u>11,747,316</u>	<u>2,209,840</u>	<u>134,775</u>	<u>14,091,931</u>
Financial liabilities				
Insurance contract liability (except Unearned premium provision)	1,681,219	-	-	1,681,219
Other insurance liabilities	2,652,038	1,089,617	369,877	4,111,532
Other liabilities	260,613	17,277	-	277,890
	<u>4,593,870</u>	<u>1,106,894</u>	<u>369,877</u>	<u>6,070,641</u>
Open balance sheet position	<u><u>7,153,446</u></u>	<u><u>1,102,946</u></u>	<u><u>(235,102)</u></u>	

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%
2019				
Profit/(loss)	51,348	(51,348)	(93,608)	93,608
	USD impact		EUR impact	
	20%	- 20%	20%	- 20%
2018				
Profit/(loss)	220,589	(220,589)	(47,020)	47,020

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(In GEL)

5. Net earned premium

Net earned premium by insurance type can be presented as follows:

	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Medical	10,132,222	(267,367)	9,864,855	84,929	9,949,784
motor own damage	3,846,752	(389,335)	3,457,417	(580,536)	2,876,881
Compulsory TPL*	2,261,523	-	2,261,523	(23,516)	2,238,007
Property	1,735,793	(714,001)	1,021,792	63,607	1,085,399
Personal Accident	425,383	(222,333)	203,050	(80,501)	122,549
Road Transport Means	421,023	(16,761)	404,262	(83,503)	320,759
Financial Risks	193,501	-	111,571	28,075	139,646
Life insurance	174,048	(38,820)	135,228	(5,995)	129,233
Aviation Transport Means (Hull)	143,151	(143,151)	-	-	-
Passenger, driver or crew personal accident insurance	132,463	(10,530)	121,933	(23,024)	98,909
Professional liability insurance	121,585	(109,062)	12,523	(5,507)	7,016
Other third-party liability	110,017	(79,627)	30,390	(6,809)	23,581
Cargo	98,312	(70,249)	28,063	(748)	27,315
Freight forwarding liability	56,802	(56,802)	-	-	-
Guarantees related to state procurement	31,293	(9,911)	21,382	(15,163)	6,219
Travel	6,753	(6,753)	-	4,633	4,633
Employer's liability insurance	5,404	(2,659)	2,745	(164)	2,581
Customs liability insurance/financial risk	3,600	-	3,600	(2,925)	675
Guarantees related to state procurement	2,332	-	2,332	638	2,970
Other suretyships	-	-	-	438	438
	19,901,957	(2,219,291)	17,682,666	(646,071)	17,036,595

(*) - The Company represents member of non-profit (non-commercial) legal entity - "Compulsory insurance center" - established in accordance with the legislation of Georgia for the management of compulsory insurance by the insurers participating in the insurance system.

The main aim of the compulsory insurance is the following: When entering the territory of Georgia the holder/driver of a foreign-registered motor vehicle shall be obliged to insure his/her civil liability arising out of the possession of the motor vehicle during the full period of his/her stay in Georgia. Compulsory insurance covers the reimbursement for the damage incurred as a result of insured event that is caused by the operation of the foreign-registered motor vehicle in traffic or its involvement therein.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

5. Net earned premium (Continued)

2018	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Medical	9,749,972	(2,008,691)	7,741,281	(1,017,743)	6,723,538
motor own damage	1,995,849	(228,508)	1,767,341	(504,443)	1,262,898
Compulsory TPL*	1,859,142	-	1,859,142	(126,140)	1,733,002
Property	1,616,018	(729,681)	886,337	8,009	894,346
Life insurance	326,837	(80,839)	245,998	(9,995)	236,003
Personal Accident	335,515	(324,084)	11,431	6,782	18,213
Freight forwarding liability	274,049	(6,014)	268,035	(73,863)	194,172
Financial Risks	220,448	(74,697)	145,751	(49,521)	96,230
Aviation Transport Means (Hull)	94,947	(1,053)	93,894	(15,746)	78,148
Professional liability insurance	55,416	(48,692)	6,724	(2,912)	3,812
Other third-party liability	34,072	(6,315)	27,757	(6,394)	21,363
Travel	12,799	(7,158)	5,641	(1,921)	3,720
Employer's liability insurance	11,352	(9,627)	1,725	(804)	921
Cargo	10,278	(1,388)	8,890	(25)	8,865
Guarantees related to state procurement	7,056	(4,760)	2,296	(1,531)	765
Other suretyships	3,903	(3,318)	585	3,283	3,868
Road Transport Means	-	-	-	3,313	3,313
Total	16,607,653	(3,534,825)	13,072,828	(1,789,651)	11,283,177

6. Commission income

Commission income can be presented as follows:

	2019	2018
Amortization of prior year commission income deferred	132,141	154,973
Amortization of current year commission income deferred	124,378	25,596
	256,519	180,569

7. Net insurance claims

Net insurance claims can be presented as follows:

	2019	2018
Insurance claims paid	(13,116,008)	(9,469,063)
Expenses related to Insurance claims paid	(447,468)	(192,800)
Gross change in insurance contract liabilities	619,500	(1,266,966)
Insurance claims and loss adjustment expenses	(12,943,976)	(10,928,829)
Reinsurer's share of general insurance claims paid	1,221,078	2,661,517
Reinsurer's share of change in insurance contract liabilities	(602,542)	718,419
Insurance claims paid and change in insurance contract liabilities recovered from reinsurers	618,536	3,379,936
Net insurance claims incurred	(12,325,440)	(7,548,893)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

8. Acquisition costs

Acquisition costs related to insurance contracts for the year ended 31 December 2019 and 2018 amounts to GEL502,035 and GEL399,094, respectively.

9. Expenses for marketing and administration

Expenses for marketing and administration can be presented as follows:

	<u>2019</u>	<u>2018</u>
Salary Expenses	(2,676,706)	(2,032,733)
Depreciation and amortization	(446,706)	(108,282)
Consulting services*	(301,225)	(162,874)
Advertising and marketing expenses	(261,358)	(154,194)
Computer & Printing Service Costs	(238,666)	(69,692)
Office expenses	(218,530)	(125,629)
Communication and utility expenses	(80,739)	(52,393)
service expenses	(58,076)	(31,099)
Business trips and representative expenses	(49,312)	(23,398)
Bank Fees	(29,284)	(24,789)
lease expenses	(25,640)	(199,984)
Other	(132,647)	(187,828)
	<u>(4,518,889)</u>	<u>(3,172,895)</u>

(*)- Accrued expenses under the subheading "Consulting expenses" include audit fee expenses with the amount of GEL31,641 (2018: GEL12,964).

10. Other expenses, net

Other expenses, net can be presented as follows:

	<u>2019</u>	<u>2018</u>
Compulsory insurance center	(260,397)	(189,812)
Fee for Insurance State Supervision Service of Georgia	(191,986)	(146,453)
Other	(22,853)	(100,021)
	<u>(475,236)</u>	<u>(436,286)</u>

11. Income tax benefit

Income tax benefit can be presented as follows:

	<u>2019</u>	<u>2018</u>
Current tax	-	-
Effect of temporary differences	8,511	218,400
	<u>8,511</u>	<u>218,400</u>
	<u>2019</u>	<u>2018</u>
Profit/ (loss) before tax	(3,498)	164,848
Applicable tax rate	15%	15%
Theoretical income tax	525	(24,727)
Prior year unrecognized tax loss	-	250,730
Effect of Permanent differences	7,986	(7,603)
	<u>8,511</u>	<u>218,400</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

11. Income tax benefit (Continued)

Deferred income tax asset can be presented as follows:

Effect of temporary differences	31.12.2017	Recognized in profit/(loss)	31.12.2018	Recognized in profit/(loss)	31.12.2019
Property and equipment	(41,352)	(23,152)	(64,504)	(48,651)	(113,155)
Tax loss carry forward	292,082	(9,178)	282,904	56,173	339,077
Right-of-use assets	-	-	-	(69,495)	(69,495)
Lease liability	-	-	-	70,484	70,484
Tax asset	250,730	(32,330)	218,400	8,511	226,911
Unrecognized temporary differences					
Tax loss carry forward	(250,730)	250,730	-	-	-
Tax asset	-	218,400	218,400	8,511	226,911

12. Property and equipment

Property and equipment can be presented as follows:

	Leasehold improvement	Technical equipment	Furniture and fixture	Vehicles	Total
At 31 December 2017	82,783	98,260	79,663	132,677	393,383
Additions	144,441	149,273	66,243	16,320	376,277
Disposals	(85,854)	(321)	-	-	(86,175)
At 31 December 2018	141,370	247,212	145,906	148,997	683,485
Additions	4,719	448,879	42,682	4,490	500,770
At 31 December 2019	146,089	696,091	188,588	153,487	1,184,255
At 31 December 2017	(14,688)	(11,098)	(8,863)	(12,162)	(46,811)
Depreciation	(34,277)	(34,122)	(15,285)	(16,532)	(100,216)
Disposal	23,246	45	-	-	23,291
At 31 December 2018	(25,719)	(45,175)	(24,148)	(28,694)	(123,736)
Depreciation	(53,610)	(89,024)	(40,513)	(16,855)	(200,002)
At 31 December 2019	(79,329)	(134,199)	(64,661)	(45,549)	(323,738)
Net book value					
At 31 December 2018	115,651	202,037	121,758	120,303	559,749
At 31 December 2019	66,760	561,892	123,927	107,938	860,517

NOTES TO THE FINANCIAL STATEMENTS

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(In GEL)

13. Right-of-use assets

The Company has leased a property for administrative office and service center. Lease payments are fixed and defined in GEL. Incremental rate for lease payments is 8-9%. Movement in right-of-use assets and lease liability is presented as follows:

Right-of-use assets		
At 1 January 2019		465,375
Additions		177,739
Amortization		(179,811)
At 31 December 2019		463,303
Lease liabilities		
At 1 January 2019		441,857
Additions		177,739
Interest expense		40,441
Lease payments		(210,597)
Foreign exchange rate differences		20,455
At 31 December 2019		469,895

Detailed qualitative information about lease liability is provided in Note 4.

14. Intangible assets

Intangible assets can be presented as follows:

	Accounting software	Web-page, Licenses and other intangible assets	Total
At 31 December 2017	245,440	14,227	259,667
Additions	245,438	111,635	357,073
At 31 December 2018	490,878	125,862	616,740
Additions	275,104	24,047	299,151
At 31 December 2019	765,982	149,909	915,891
Accumulated amortisation			
At 31 December 2017	-	(1,565)	(1,565)
Amortisation	-	(8,066)	(8,066)
At 31 December 2018	-	(9,631)	(9,631)
Amortisation	(31,916)	(34,977)	(66,893)
At 31 December 2019	(31,916)	(44,608)	(76,524)
Net book value			
At 31 December 2018	490,878	116,231	607,109
At 31 December 2019	734,066	105,301	839,367

NOTES TO THE FINANCIAL STATEMENTS

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(In GEL)

15. Deferred acquisition costs

Deferred acquisition costs can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
1 January	242,582	275,878
Increase in deferred acquisition costs	550,982	365,798
Acquisition costs (Note 8)	(502,035)	(399,094)
31 December	291,529	242,582

16. Insurance contract liabilities and reinsurance assets

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

	<u>31.12.2019</u>	<u>31.12.2018</u>
Insurance contract liabilities		
Unearned premium provision	5,827,143	5,123,814
Provisions for claims reported by policyholders	370,588	1,143,336
Provisions for claims incurred but not reported (IBNR)	691,131	537,883
	6,888,862	6,805,033
Reinsurance assets		
Reinsurers' share in unearned premium provision	957,662	900,404
Reinsurers' share in provisions for claims reported by policyholders	111,042	700,048
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	102,944	116,480
	1,171,648	1,716,932
Insurance contract liabilities net of reinsurance		
Unearned premium provision	4,869,481	4,223,410
Provisions for claims reported by policyholders	259,546	443,288
Provisions for claims incurred but not reported (IBNR)	588,187	421,403
	5,717,214	5,088,101

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(In GEL)

16. Insurance contract liabilities and reinsurance assets (Continued)*a) Analyses of movement in provision for unearned premium:*

	31.12.2019	31.12.2018
Provision for unearned premium, gross		
Balance at 1 January	5,123,814	2,877,700
Gross premium Written	21,856,707	17,321,158
Cancelled premiums	(1,954,750)	(713,505)
Gross earned premium	(19,198,628)	(14,361,539)
Balance at 31 December	5,827,143	5,123,814
provision for unearned premium - reinsurer's share		
Balance at 1 January	900,404	443,941
Reinsurer's share of gross written premium	2,564,742	3,657,536
Cancelled premiums	(345,451)	(122,711)
Gross reinsurer's earned premium	(2,162,033)	(3,078,362)
Balance at 31 December	957,662	900,404
provision for unearned premium - (net of reinsurance)		
Balance at 1 January	4,223,410	2,433,759
Written premium, net	19,291,965	13,663,622
Cancelled premiums, net	(1,609,299)	(590,794)
Earned premium, net	(17,036,595)	(11,283,177)
Balance at 31 December	4,869,481	4,223,410

b) Provision for claims

	31.12.2019	31.12.2018
Claims provision, gross		
Balance of incurred but not reported at 1 January	537,883	210,046
Balance of notified claims provision at 1 January	1,143,336	204,207
Total balance of claims provisions at 1 January	1,681,219	414,253
Payments in respect of prior year claims	(1,015,084)	(197,537)
Change in estimates in respect of prior year claims	(666,135)	(216,716)
Expected cost of current year claims	13,610,111	11,145,545
Payments in respect of current year claims	(12,548,392)	(9,464,326)
Provisions for claims reported by policyholders	1,061,719	1,681,219
Provisions for claims incurred but not reported (IBNR)	691,131	537,883
Provisions for claims notified by policyholders	370,588	1,143,336
Provision for claims - reinsurer's share		
Balance of incurred but not reported at 1 January	116,480	86,396
Balance of notified claims provision at 1 January	700,048	11,713
Total balance of claims provisions at 1 January	816,528	98,109
Payments in respect of prior year claims	(671,408)	(86,677)
Change in estimates in respect of prior year claims	(145,120)	(11,432)
Expected cost of current year claims	763,656	3,391,368
Payments in respect of current year claims	(549,670)	(2,574,840)
Total claims provisions at 31 December	213,986	816,528
Balance of incurred but not reported at 31 December	102,944	116,480
Balance of notified claims provision at 31 December	111,042	700,048

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16. Insurance contract liabilities and reinsurance assets (Continued)

	<u>31.12.2019</u>	<u>31.12.2018</u>
Provision for claims - (net of reinsurance)		
Balance of incurred but not reported at 1 January	421,403	123,650
Balance of notified claims provision at 1 January	443,288	192,494
Total balance of claims provisions at 1 January	864,691	316,144
Payments in respect of prior year claims	(343,676)	(110,860)
Change in estimates in respect of prior year claims	(521,015)	(205,284)
Expected cost of current year claims	12,846,455	7,754,177
Payments in respect of current year claims	(11,998,722)	(6,889,486)
Total claims provisions at 31 December	847,733	864,691
Balance of incurred but not reported at 31 December	588,187	421,403
Balance of notified claims provision at 1 December	259,546	443,288

Insurance contract liabilities and reinsurance assets - terms, assumptions and sensitivities

Insurance contracts

(1) Terms and conditions

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) 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.

(2) Assumptions

For the calculation of the IBNR provision including the liability adequacy test we refer to note 3 - Significant accounting policies, Insurance Contract Liabilities)

17. Insurance and reinsurance receivables

Insurance and reinsurance receivables can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Due from policyholders	6,733,648	5,670,493
Due from reinsurers	618,466	1,372,360
	7,352,114	7,042,853

The Company creates provision for its overdue receivables. Qualitative information about the receivables financial receivables is presented in Note 4.

18. Other assets

Other assets can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Prepaid expenses	118,315	118,315
Prepayments	35,610	53,210
inventory	53,024	39,261
Other assets	39,150	11,794
	246,099	222,580

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

19. Amounts due from credit institutions

Amounts due from credit institutions can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Principal	5,400,000	5,769,252
Accrued interest	289,376	37,047
	<u>5,689,376</u>	<u>5,806,299</u>

Amounts due from credit institutions are represented by placements in Georgian Banks. The Georgian State Insurance Supervisory Agency (GSISA) established minimum level of deposits (minimum reserve) and cash on bank accounts dependent on the estimated insurance claims. Detailed information about liquidity and currency of amounts due from credit institutions are provided in Note 4.

Amounts due from credit institutions include deposited guarantees with the amount of GEL369,252 as at 31 December 2018.

20. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Cash at bank in GEL	627,768	409,772
Cash at bank in foreign currencies	1,738	16,479
Restricted amount	3,102	-
	<u>632,608</u>	<u>426,251</u>

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

21. Share capital and preference shares

Share Capital and preference shares can be presented as follows:

	<u>Authorized shares</u>			
	<u>31.12.2019</u>	<u>31.12.2019</u>	<u>31.12.2018</u>	<u>31.12.2018</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Ordinary share of GEL1 each	6,440,624	6,440,624	6,440,624	6,440,624
Redeemable preference shares of GEL1,000 each*	300	300,000	-	-

* The shares have no voting rights. The shares are redeemable any time by resolution of the supervisory Board of the Company.

	<u>Issued and fully paid shares</u>			
	<u>Ordinary shares</u>		<u>Preference shares</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
31.12.2018	<u>6,440,624</u>	<u>6,440,624</u>	-	-
Preference shares issue for cash	-	-	300	300,000
31.12.2019	<u>6,440,624</u>	<u>6,440,624</u>	<u>300</u>	<u>300,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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22. Other insurance liabilities

Other insurance liabilities can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Reinsurance Payable	3,551,375	3,391,380
Commission Payable	393,811	350,900
Liability for deposited guarantee	-	369,252
	<u><u>3,945,186</u></u>	<u><u>4,111,532</u></u>

23. Deferred commission income

Deferred commission income can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
As at 1 January	<u>132,141</u>	<u>154,973</u>
Increase in commission income deferred	307,582	157,737
Amortization (Note 6)	(256,519)	(180,569)
At 31 December	<u><u>183,204</u></u>	<u><u>132,141</u></u>

24. Other liabilities

Other liabilities can be presented as follows:

	<u>31.12.2019</u>	<u>31.12.2018</u>
Financial liabilities		
Liabilities to GSISA	167,192	121,659
Liabilities related to non-insurance operations	164,969	146,910
Liabilities related to purchase of long-term asset	135,384	-
salary payable	2,036	1,919
Lease liabilities	-	7,402
Non-financial liabilities		
Received advances	3,534	7,962
	<u><u>473,115</u></u>	<u><u>285,852</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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25. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 'Related party disclosures', represent:

- a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives them significant influence over the Company; and that have joint control over the Company;
- b) Members of key management personnel of the Company or its parent;
- c) Close members of the family of any individuals referred to in (a) or (b);
- d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

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 are the following amounts which were recognized in transactions with related parties:

	<u>2019</u>	<u>2018</u>
	Transactions with related parties	Transactions with related parties
Gross written premiums on insurance contracts		
Shareholder	2,489	2,682
Other	1,782,808	3,214,143
Reinsurer's share of gross written premium on insurance contracts		
Shareholder	504,599	2,416,096
Insurance claims and loss adjustment expenses		
Shareholder	6,661	260
Other	19,057	205,036
Marketing and administrative expenses		
Shareholder	-	18,226
Other	98,809	23,600
Key management compensation	501,725	376,505
	<u>2019</u>	<u>2018</u>
Insurance and reinsurance receivables		
Shareholder	65,864	1,052,348
Other	832,020	1,232,535
Reinsurance assets		
Shareholder	185,977	1,732,834
Insurance contract liabilities		
Other	859,752	1,399,136
Shareholder	1,622	2,896
Other insurance liabilities		
Shareholder	1,716,288	2,136,298
Other	1,671	-
Other liabilities		
Shareholder	70,332	17,573

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

26. Commitments and contingencies

Legal cases - As at 31 December 2019 and 2018 the Company has no legal actions and complaints. Management believes that the ultimate liability, if any, arising from actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company. Related to above mentioned no provision is accrued in the financial statements.

Taxes - Georgian tax legislation 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.

Financial commitments and contingencies - Total non-cancellable future operating lease commitments are presented as follows:

	31.12.2019	31.12.2018
Up to 1 year	-	164,209
1 year to 5 years	-	176,656
Over 5 years	-	-
Total	-	340,865

Management report - In accordance with the Law on accounting, reporting and auditing (article 7) the Company has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors' Report no later than 1 October of the year following the reporting period. The Company has not fulfilled this obligation at the date of issue of the financial statements.

Other commitments - For participating in tender the Company has received guarantee from VTB Bank Georgia with the amount of GEL363,926 as at 31 December 2019 (31.12.2018: GEL0).

27. 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.

The World Health Organization has declared the rapidly spreading coronavirus outbreak a pandemic as of March 11, 2020.

As of 31 March 2020, the Government of Georgia announced state of emergency for the reason to prevent spreading the virus. As of 31 March 2020, quarantine regime activated in Georgia. As a result of this traveling within and between cities and municipalities on the territory of Georgia was significantly restricted. Also, restrictions were imposed on economic activities for many sectors.

In March of the current year, the Company transferred all its employees to work remotely, continues to operate continuously and offers its services to the clients. The management believes that the ability of the Company to remain a going concern is not under question, however the management cannot assess future possible effects of the pandemic on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

28. Change in accounting policies

The Company adopted IFRS 16 with a transition date of 1 January 2019. Effect of adoption of new standard does not require to recognize the effect of change in the opening equity balances at the date of initial application (1 January 2019). Thus, Comparative figures of the financial statements are not restated. 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 significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

The Company elected to apply the practical expedient to not 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 most 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 leases	Space of administrative office and service center: 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 8-9%.

NOTES TO THE FINANCIAL STATEMENTS

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(In GEL)

28. Change in accounting policies (Continued)

The effect of adoption IFRS 16 as at 1 January 2019 (increase/decrease) is as follows:

		As presented 31.12.2018	IFRS 16	01.01.2019
Assets				
Right-of-use assets	(a)	-	465,375	465,375
Other assets (prepayments)	(b)	23,518	(23,518)	-
Liabilities				
Lease liability	(c)	-	441,857	441,857

a) Right-of-use assets have been increased with agreements classified as operating lease agreement with the amount of GEL465,375.

b) Right-of-use assets have been increased with prepayments made in prior period with the amount of GEL23,518.

c) Lease liability have been increased with the amount of GEL441,857.

The following table reconciles the minimum lease commitments disclosed in the Company's 31 December 2018 annual financial statements to the amount of lease liabilities recognized on 1 January 2019 in accordance with IFRS 16:

Minimum operating lease commitment at 31 December 2018	340,865
Management's estimation regarding the prolongation of lease terms	135,980
Minimum operating lease commitment at 31 December 2018 before discounting	476,845
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(34,988)
Lease liability as at 1 January 2019	441,857

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

29. Summary of significant accounting policies

Principal accounting policies applied in the preparation of these financial Statements are set out below.

29.1 Foreign currency translation**a) Functional and presentation currency**

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

b) Transactions and balances

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

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

At 31 December 2019 and 2018 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	EUR
Exchange rate as at 31.12.2019	2.8677	3.2095
Exchange rate as at 31.12.2018	2.6766	3.0701

29.2 Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

29.3 Property and equipment

The Company is accounting Property and Equipment according to IAS 16 - "Property and equipment" requirements.

Items of property and equipment are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Property and equipment are carried at historical cost less accumulated depreciation and recognized impairment loss, if any. Depreciation on all classes of property and equipment is calculated on a straight-line basis to allocate their cost over the following estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

29. Summary of significant accounting policies (continued)

Class	Useful life (year)
Leasehold improvement	5
Technical equipment	2-5
Fixture and fittings	5-10
Vehicles	10

Assets' 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. The difference is recognized in comprehensive income as other income/expense.

29.4 Intangible Assets*Accounting Software*

Intangible assets are measured on initial recognition at cost. 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 assets' cost or cost after impairment amounts to their residual values over their estimated useful lives.

29.5 Deferred policy acquisition costs (DAC)

Deferred acquisition costs are commission and other acquisition costs related to agents and brokerage companies for selling the insurance contracts. Deferred acquisition costs are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts with the straight line basis.

29.6 Reinsurance contracts

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 (Note 29.8).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

29. Summary of significant accounting policies (continued)

29.7 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are comprised with receivables and payables as amounts due 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 impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets.

(i) Salvage and subrogation reimbursements

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

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

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

29.8 Financial instruments

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

The Company's accounting policy for each category is as follows:

(a) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers and loans granted, but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the trade receivable and loan granted will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's loans and receivables comprise insurance and reinsurance receivables, amounts due from credit institutions and cash and cash equivalents accounts.

Cash and cash equivalents include cash on current accounts and cash on hand.

NOTES TO THE FINANCIAL STATEMENTS

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(In GEL)

29. Summary of significant accounting policies (continued)

(b) Held-to-maturity investments

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

- (a) Those that the entity upon initial recognition designates as at fair value through profit or loss
- (b) Those that the entity designates as available for sale; and
- (c) Those that meet the definition of loans and receivables.

(c) Fair value through profit or loss

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

- (a) It is classified as held for trading. A financial asset is classified as held for trading if it is:
 - (i) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
 - (ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
 - (iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
- (b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only:
 - (i) If a contract contains one or more embedded derivatives. In this case an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless:
 - The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
 - It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost; or
 - (ii) When doing so results in more relevant information, because either:
 - It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases; or
 - A group of financial assets, financial liabilities or both is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

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

(d) Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

In current period the Company does not have available-for-sale financial assets.

NOTES TO THE FINANCIAL STATEMENTS

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(In GEL)

29. Summary of significant accounting policies (continued)

Financial liabilities

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

(a) Fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions (see financial assets for detailed information):

- (a) It is classified as held for trading
- (b) Upon initial recognition it is designated by the entity as at fair value through profit or loss.

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

(b) Other financial liabilities

Other financial liabilities include other insurance liabilities, received loans and trade payables which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Derecognition of financial assets

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.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, The Company's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Offsetting

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.

29.9 Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium.

Provision are established for losses and loss adjustment expenses (LAE) which have occurred but are not yet paid. Provisions for loss and loss adjustment expenses fall into two categories: provisions for reported but not settled insurance claims (RBNS) and provision for incurred but not reported losses (IBNR). The provisions are recognized as liabilities in the statements of financial positions. The liabilities are not discounted for the time value of money.

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

The amount of provision for reported but not settled insurance claims at the reporting date are the amount of reserved unpaid insurance money under known claims of insurers. The Company forms provision for reported but not paid claims of insurers at the reporting date confirmed by the relevant statements.

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For the year ended 31 December 2019

(In GEL)

29. Summary of significant accounting policies (continued)

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

Insurance contracts of the Company mostly include short-term health and Casco insurance contracts. Because of this fact, the management does not consider the actuarial calculations for calculating IBNR to be necessary. Therefore, IBNR is calculated and presented by the rates determined by the Georgian State Insurance Supervisory Agency (GSISA)

(iii) Unearned premium provision.

The proportion of written premiums attributable to subsequent periods is Deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement.

29.10 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 (the unexpired risk provision).

29.11 Current and deferred income tax

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. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated based on 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 based on amounts expected to be paid to the tax authorities.

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

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

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

29.12 Lease

The Company as lessee

The following policies apply subsequent to the date of initial application, 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(In GEL)

29. Summary of significant accounting policies (continued)

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 assets 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 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 reasonably 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.

At the commencement date, the Company measures the right-of-use assets at cost. The cost of the right-of-use assets is comprised:

- The amount of the initial measurement of the lease liability;
- 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 (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), 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.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. 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. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

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29. Summary of significant accounting policies (continued)

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. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Company elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

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. After the commencement date, the Company reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

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 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).

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.