**TBC Insurance JSC**

**The Management Report and International Financial Reporting Standards Consolidated and Separate Financial Statements**

**31 December 2019**

**TBC Insurance JSC**

**The Management Report**

**31 December 2019**

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## At a Glance

TBC Insurance is a member of TBC Bank Group PLC along with TBC Bank, Georgia's largest banking group with its outstanding financial performance, superior customer experience, strong brand and best-in-class digital banking channels, which is also one of the main strategic channels for TBC Insurance.

TBC Insurance JSC (formerly known as Insurance company Kopenbur JSC) was incorporated on 8 May 2014. On 1st November 2016 Kopenbur JSC was acquired by TBC Bank Group PLC and as a result changed its legal name to TBC Insurance JSC.

TBC Insurance is one of the leading insurance companies on the non - health insurance market, an accomplishment that can be attributed to a young and dedicated workforce and a versatile management team.

We continue to innovate and develop unique digital products in line with our strategy of becoming number 1 Insurance company on the Georgian market, while customer satisfaction remains at the heart of everything we do. We acknowledge responsibility towards all our stakeholders and are focused on achieving strong financial results and maximizing our shareholders' returns, as well as creating value for our customers, employees, community and environment.

TBC insurance core business lines include Retail, SME and Corporate sector insurance. We cover almost all insurance products presented on the Georgian Market through our well-developed multichannel network. We launched Health Insurance in Q2 2019 and by the end of the year we had +5K insured clients, 233 providers clinics across Georgia.

The Company had four subsidiary entities during 2019: JSC Swoop, G Commerce LLC, All Property Ge LLC and Redmed LLC:

1. JSC Swoop is a joint stock company as it is defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia and was incorporated on 8 September 2010. JSC Swoop was acquired by TBC Insurance JSC on 1 August 2018. The principal business activity of the subsidiary entity is e-commerce. TBC Insurance owned 100% of JSC Swoop until 1st April 2019.

2. GE Commerce LLC was formed and domiciled in Georgia as a limited liability company under Georgian law on 18 September 2018, with 2,000 thousand GEL of total capital contribution made by TBC Insurance JSC. The principal business activity of the subsidiary entity is e-commerce. TBC Insurance owned 100% of GE Commerce LLC until 1st April 2019.
3. On 4th January 2019, The Group acquired 90% of the share capital of All Property Ge LLC and obtained control through ability to cast majority of votes in general meeting of shareholders. This business combination, as well as Swoop JSC acquisition and G Commerce LLC incorporation is in line with TBC Bank Group PLC's strategic goals.

   *On 1st April 2019, The Group sold 100% of its three above-mentioned subsidiaries to JSC TBC International - subsidiary of TBC Bank Group PLC.*
4. In 2019 TBC Insurance launched the first digital healthcare ecosystem in Georgia, Redmed. Redmed LLC was formed and domiciled in Georgia as a limited liability company under Georgian Law on 21 June 2019, with 1,000 thousand GEL of total capital contribution from TBC Insurance. Redmed LLC is fully owned subsidiary of TBC Insurance.

   Redmed is a fully digital find-a-medical service company that provides an Uber–like service for customers to quickly find, book and receive medical services. The application is very simple to use - customers simply need to create a Redmed account, log-in, choose the doctor they want to see based on selected criteria and then book an appointment in less than a minute.

   As the trend towards the ecosystem service model is increasing rapidly, we believe that this service model will prove very successful and will allow us to:

- Enhance data collection capabilities, which will eventually improve our underwriting effectiveness;
- Decrease unnecessary outpatient referrals within clinics, thereby decreasing claims expenses and ultimately positively affecting the loss ratio;
- Automate processes and allow instant claim recognition and reimbursement.

**Our Vision**

Become number 1 Insurance company in Georgia.

**Strategic priorities**

- Digitalizing sales channels and processes
- Transparent and timely service in claims
- Proactive management of Net Combined Ratio[1]
- Build a strong modern brand
- Create an outstanding User Experience.

## General Overview

TBC Insurance had an utterly successful year in 2019 as they were second by market share on the non – health insurance market and the gap between them and their direct competitor decreased by 1.6pp compared to 2018 and remains 7.3pp. TBC Insurance was also one of the prime sources of market growth. Disregarding Mandatory MTPL, which generated a market of 38.2 mln GEL in written premiums distributed evenly among active Insurance companies, the non-health market grew at a rate of 19.1% YoY, while TBC Insurance increased at 25.7% YoY. Moreover, the non-health (w/o Mandatory MTPL) written premiums on Georgian insurance market increased by 54.6 mln GEL (from 285.4 mln in 2018 to 340.0 mln in 2019) and majority of the new market, appx. 27.5% was created by TBC Insurance.

***Retail Sector***

TBC Insurance reached several crucial milestones in 2019:

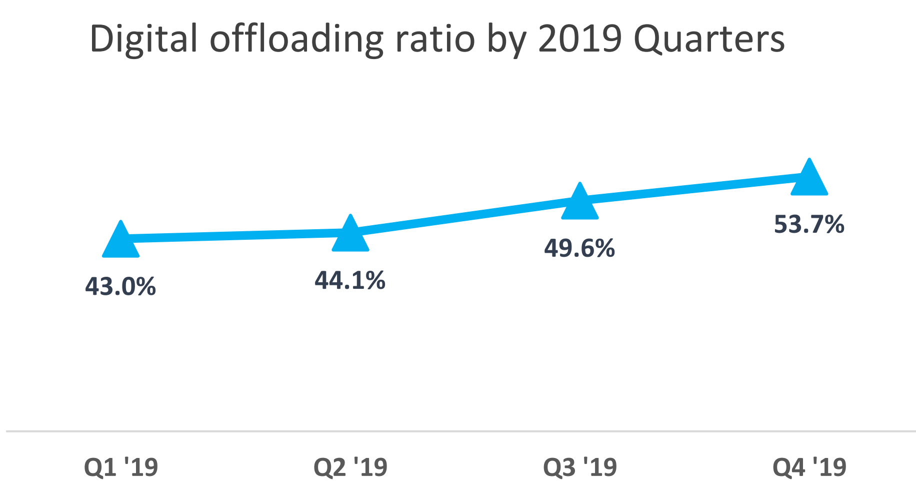
- Sustaining the number 1 position on the Retail market
- Automating Casco claim settlement within ranges of certain amounts
- Reaching 48.3% in digital offloading[2] ratio in 2019 compared to 29.3% in 2018
- Digitalizing Casco policy renewal

[1] Net insurance claims plus acquisition costs and administrative expenses divided by net earned premium
[2] Number of retail policies written via digital channels divided by total number of voluntary retail policies written

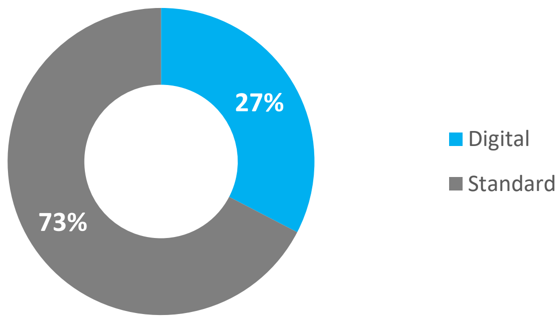
TBC Insurance actively utilized the Retail segment sales channels, which include customers acquired by digital channels, TBC Bank customers through 116 branches, mass Retail through Agency Network (including branches in Batumi, Poti, Zugdidi & Kutaisi), customers through Merchant channels and VIP clients to produce 53,357 KGEL written premiums in 2019 – a 23.1% increase compared to 2018. Bulk majority of the new retail market, appx. 26.2% was created by TBC Insurance.

### *Digital Channels*

In 2017, TBC Insurance set the stage for active incorporation of digital capabilities in insurance business processes by introducing Travel & MTPL insurance through several channels: TBC Pay, B Bot (Facebook Messenger Chatbot), TBC Internet Bank and TBC Insurance Webpage and also digitalizing various insurance processes (policy purchase, claim settlement etc.), which contributed greatly not only to the simplification of consumer experience, but also to the optimization of business procedures. In 2018, TBC Insurance further embraced the digital potential and offered complex products like Casco, MTPL & Property insurance through various digital channels, which consequently led to a significantly high digital offloading ratio of 48.3% in 2019 (29.3% in 2018):




During 2019, B Bot (Facebook Messenger Chatbot) was updated to service not only non-health clients but health insurance clients as well and consequently became the first health Bot in Georgia. Furthermore, TBC Insurance continued actively working on simplification of consumer experience and from Q3 offered new digital solution for Casco policy renewal, this initiative proved itself utterly successful and as a result 26.5% of all retail policies were renewed digitally in 2019.




As of 2019, our portfolio of digital products and channels has been highly diversified:

| PRODUCT/CHANNEL | WEB | MOBILE & INTERNET BANK | BOT | PAY |
|---|---|---|---|---|
| CRITICAL ILLNESS | √ | | | |
| CASCO | √ | √ | √ | |
| MTPL | √ | √ | √ | √ |
| PROPERTY | √ | | | |
| PPI | √ | √ | | |
| TRAVEL | √ | √ | √ | √ |

***SME & Corporate Sector***

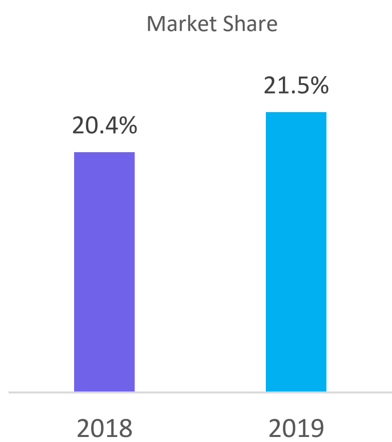
Similar to 2018, year 2019 offered fierce competition on the SME & Corporate market, however, TBC Insurance generated an impressive 20,780 KGEL in gross written premiums – approximately 25.2% more than in 2018. As a result, TBC insurance  market share in SME & Corporate market stood at 11.4% . Moreover, TBC Insurance insured some of the leading companies on the market, including Caucasus Online, Adjara Group, Elit Electronics, Silknet, Tegeta Motors & others.

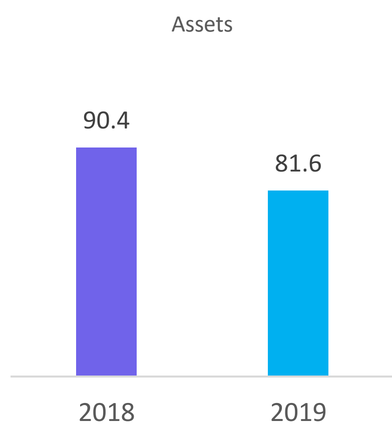
In 2018, we also implemented the SME Bancassurance portal, ensuring the delivery of high-quality services to SME clientele of TBC Bank. SME Bancassurance portal was launched by the end of Q3 2018 and generated over 230 KGEL in gross written premiums in a relatively short amount of time. In 2019 SME Bancassurance portal generated 1,734 KGEL, roughly 7.5 times more than in 2018.

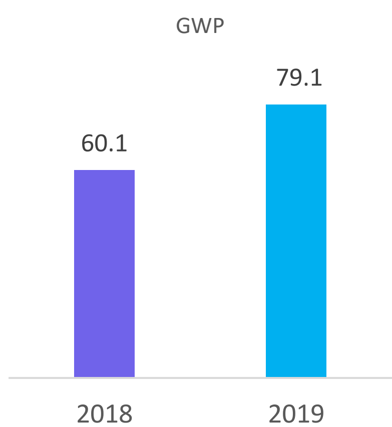
## Financial Highlights (mln GEL)

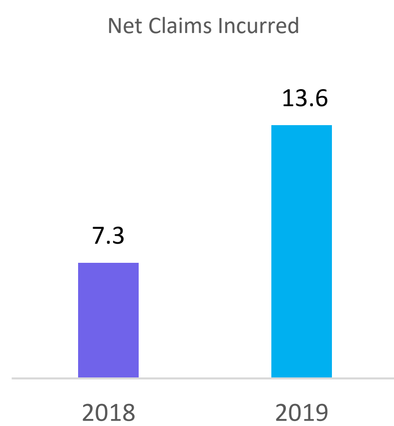
*[Market share is represented excluding Mandatory MTPL and Health insurance]*

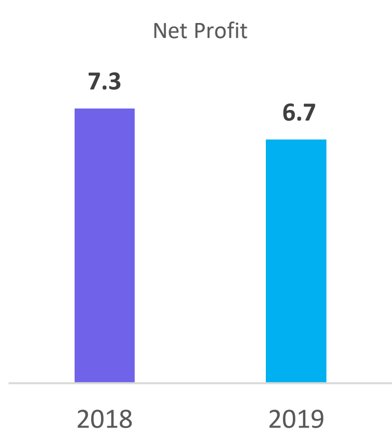
*[Net combined ratio is represented excluding Health insurance, including health insurance the net combined ratio would be 84 .3%]*

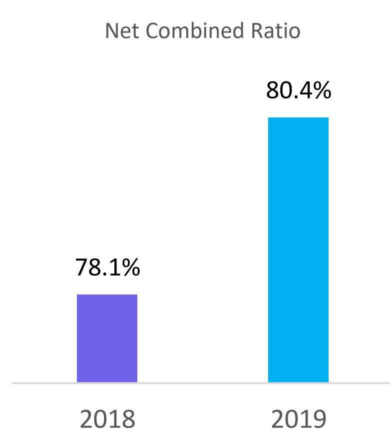


## CEO Letter[3]

2019 was a successful year for TBC Insurance in many ways. We managed to further strengthen our market position, thus building strong foundation for our road ahead. By the end of 2019, TBC Insurance achieved market leader position with an overwhelming 36.6% in non-health retail market and 21.5% in total non-health market. Moreover, TBC Insurance increased its retail and corporate motor insurance market shares to 31.4% and 21.0%, respectively.

Company's financial performance from insurance operations was further improved in 2019. Insurance business net income reached 8,2 mln GEL, equity level increased to 21,5 mln GEL and solvency ratio was over 187%.

In mid-2019 we introduced new business line - Health insurance, which alongside other new initiatives is an important addition to our set of corporate products. By the end of 2019, clients insured through corporate health insurance programs exceeded 5 thousand insureds, which is a notable achievement considering how saturated Georgian corporate health insurance market is.

As the global trend towards ecosystem service models is increasing rapidly, another important initiative in 2019 was launch of the first digital healthcare P2P platform in Georgia. We strongly believe this model will prove itself successful, as it makes healthcare services widely and easily accessible to customers living in various places, as well as affordable.

In 2019 we continued on the path towards digitalization to further advance our customer experience in different digital channels. Several new retail products were introduced through digital platforms. In addition, we launched new digital solution that allows our customers to renew their motor insurance policies online. These initiatives significantly increased share of policies that are being purchased and renewed online, enabling us to minimize back office workload, rise policy renewal rates and to reach offloading ratio of 48.3% (vs 29.3% in 2018).

As part of our drive towards improved customer experience, claims administration and settlement processes were fine-tuned and digitalized. Customers can now report a claim through digital channel and receive indemnification online, within minutes. On top of that, claims Department team structure has been revisited enabling us to achieve significant increase in claims settlement efficiency. Average

[3] Market information is presented w/o Mandatory MTPL.

settlement time for motor claims was reduced and 79.4% of claims in 2019 were settled within 10 business days. Number of motor claims handled digitally also increased sharply, with offloading ratio reaching 51.2% in December 2019, up by 16.1pp YoY.

To measure brand customer experience, in 2019 TBC Insurance conducted retail motor insurance Net Promoter Score (NPS) survey via independent research agency. Company’s NPS score stands at 59.8, which is the highest among top players in retail motor market. The gap between direct competitor is 4.8 points.

One of the biggest highlights of 2018 was launch of SME Bancassurance portal. The portal provides simplified insurance buying services to small and medium sized business customers of TBC Bank. In 2019, approximately 27% of total voluntary SME sales were written through SME Bancassurance portal, playing crucial role in gaining the foothold in a severely underpenetrated SME market.

Through various campaigns, we actively engaged with our customers and promoted our corporate values. Our main campaign at the end of 2019 aimed at encouraging people to complement one another on various occasions. The message we wanted to get across was that giving praise, acknowledging and celebrating one another’s achievements is important in building trust and motivation.

In conclusion, I would like to express my gratitude to our partners and our customers for placing their trust and confidence in us. I strongly believe, that we will achieve all our strategic goals, reach prominent position on the Georgian insurance market and further increase our digital footprint. Ultimately, I would like to express my appreciation and gratitude to all my colleagues for their dedication, commitment and passion.

**Paata Gadzadze**
Chief Executive Officer

## Risk Management

The Supervisory Board together with the Group's management has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies and reporting regularly to the shareholders on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Supervisory Board monitors the Group's management compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

TBC Insurance carries out risk assessment of loss from individuals or organisations that are directly subject to risk for life, motor and other non-health segments, such as health, property, liability, cargo, travel or other perils that may arise from an insurable event. As such, TBC Insurance is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. TBC Insurance also has exposure to market risk through insurance and investment activities.

TBC Insurance's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Secondly, the risk is managed through the use of reinsurance. TBC Insurance purchases reinsurance coverage for various classes of products: motor, life, property, cargo and liability business.

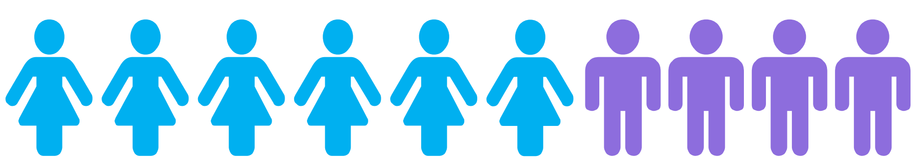
TBC Insurance management reviews entity credit, liquidity and cash flow risks on an ongoing monthly basis:

1. Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Group reinsures certain risks with the reinsurance companies. The selection of reinsurance companies is based on criteria mainly related to solvency, reliability and creditworthiness of the counterparty.
2. Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. TBC Insurance cash and cash equivalents as of December 2019 equals 47% of its total assets. Moreover, solvency ratio of 198% signifies that TBC Insurance can endure even long-term recessions. Furthermore, TBC Insurance does not have loans or other long-term liabilities (except of insurance contracts).

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at the year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these consolidated and separate financial statements, to date there has been no discernible impact on the Group's sales or supply chain, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effect.

## Our Team

TBC Insurance prides itself on employing some of the most skilled professionals in the region and by the end 2019, our numbers grew by 51.6% to reach 263 employees. We believe that each employee is part of our success and we are committed to keep them by providing competitive benefits in the market, supporting professional development & creating the best environment for working.





**57%** **43%**

TBC Insurance is an equal-opportunity employer and we do not discriminate based on race, ethnicity, religion, gender, age or disability. We promote gender equality and support women in the workforce. We are proud that women comprised 57% of our total workforce at the end of 2019.

In 2019, we conducted engagement surveys (result – 94%) for our employees, as well as 360 evaluation for management staff. Also, we actively participated in numerous job fairs organized by top universities and leading HR consultancies to help us select best candidates with the highest growth potential.

Regular communication with employees is an integral part of our corporate culture. Each year we strive to provide our employees with the latest information and developments about TBC Group.

## Corporate Governance

Joint Stock Company TBC Insurance is a subsidiary of London Stock Exchange premium segment listed TBC Bank Group PLC (together the “Group”). The Group complies with the highest standards of Corporate Governance as prescribed by the UK Corporate Governance Code.

TBC Insurance Supervisory board comprises (the “Board”) of three members, who are collectively responsible for promoting the company’s long-term success and the delivery of sustainable value to shareholders by establishing and overseeing the strategic direction of the company and its business. The Board is the decision-making body in relation to all matters that are significant to the company. The matters exclusively reserved for the Board’s approval include, among other things, approval of the company’s strategy, long-term objectives, risk appetite, the annual operating and capital expenditure budgets, changes to the company's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts.

## Board Biographies

**Vakhtang Butskhrikidze**

**Chairman**

Vakhtang Butskhrikidze graduated from Tbilisi State University in 1992 with a degree in Economics and holds post graduate qualifications from the Institute of Economics, Academy of Sciences of Georgia. Mr. Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees. Vakhtang is also a member of the Supervisory Boards of the Association of Banks of Georgia and is Chairman of the Financial Committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the Supervisory Board of the Partnership Fund, Georgia. In 2016, Vakhtang joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council. In his earlier career, Vakhtang acted as Junior Specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as an Assistant to the Minister of Finance of Georgia between 1992 and 1993. In 2001, Vakhtang was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011, he was recognised as the "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award. Vakhtang was also named as the CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. Vakhtang obtained an MBA from the European School of Management in Tbilisi in 2001. Mr. Butskhrikidze was appointed as chairman of the Board at TBC Insurance in November 2016.

**Badri Japaridze**

**Deputy Chairman**

Badri Japaridze graduated from the Faculty of Psychology at Tbilisi State University in 1982 and holds a postgraduate qualification from the Faculty of Psychology at Moscow State University. In addition, in 2001, he completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of parliament in Georgia. In 1992, he was appointed as head of the Foreign Relations department at TBC Bank and became TBC Bank's vice president in 1993. In 1996-2014, he was chairman of the Board at TBC TV. Between 1995 and

2003, he served as a vice president at Georgian Glass and Mineral Water, of which he was a co-founder. The company was later renamed IDS Borjomi and he was a member of the Board between 2004 and 2010. In 1995, Mr Japaridze was elected to TBC Bank's Supervisory Board and has been deputy chairman of it since 1996. In 2004, he was also elected as a member of the Board of Directors of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is a co-founder. In 2006, Mr Japaridze was elected to the supervisory board of the EU-Georgian Business Council and simultaneously became the council's deputy chairman. In 2008, he became a member of the Supervisory Board at Geoplant, a position that he retains today. Mr Japaridze is also chairman of the supervisory board at TBC Kredit and deputy chairman of the supervisory board at TBC Leasing. Mr. Japaridze was appointed as deputy chairman of the Board at TBC Insurance in November 2016.

**George Tkhelidze**

**Board Member**

George joined TBC Bank in 2014 from Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. Prior to this, from September 2009 he was an Associate Director in Barclays Debt Finance and Restructuring Teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George held various managerial positions at ALDAGI insurance company, where he also served as Chief Executive Officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and Graduate Diploma in Law from Tbilisi State University (2000).

## TBC Insurance Management Board Biographies

**Paata Gadzadze**

**Chief Executive Officer**

Paata joined TBC Bank in 1994 as deputy general director of TBC Bank and was appointed to the Management Board in 1996. In 2005, he was appointed head of the credit department. Paata has held the position of first deputy CEO since 1998. Since 2014, he has held the position of the member of the supervisory board of TBC Leasing. Since 2016, Paata has served as a lecturer at the Free University, Georgia. In 2017, he was appointed as CEO of TBC Insurance and continues to hold the position of First Deputy CEO at TBC Bank. Between 2000 and 2004, he also served as CEO of Georgian Pension and Insurance Holding. In his earlier career, Paata was an assistant to the Minister of State Property Management between 1992 and 1994. Paata also held the position of lecturer at the European School of Management in Tbilisi between 1994 and 2004. Paata graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia.

**David Kiguradze**

**Deputy CEO**

In 2002, David Kiguradze graduated with the bachelor's degree in Business Administration from European School of Management. From 2002 to 2006 he has held various positions at Insurance Company GPI Holding, including the Head of Claims Department and Head of Product Development & Underwriting Department. In 2006, David joined TBC Bank and served as the Head of Treasury and Financial Services for over 5 years. From 2012 to 2015, David was the CEO of TBC Kredit in Baku, Azerbaijan. Moreover, he held the position of CEO at TBC Pay from 2015 to 2016. Since 2016, he became the Deputy CEO at TBC Insurance. David graduated from IEDC – Bled School of Management, Slovenia with an MBA Degree (2006).

**Nikolay Kobzev**

**Chief Operating Officer**

Nikolay Kobzev received his bachelor's degree from Technical University of Georgia, Faculty of Information Technologies. From 2003 to 2012, he worked at Insurance Company GPI Holding, where he served as Chief Information Officer for 3 years. In 2013, Nikolay graduated from University of Oxford, Said Business School with an MBA degree. From 2013 to 2016 he was a part of MBA Leadership Development Program at Eli Lilly and Company, US and subsequently he worked at Boston Consulting, Russia. Since 2016, Nikolay holds the position of Chief Operating Officer at TBC Insurance.

**TBC Insurance JSC**

**International Financial Reporting Standards**
**Consolidated and Separate Financial Statements**

**31 December 2019**

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# Independent Auditor's Report

To the Shareholder and Management of JSC TBC Insurance

## Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC TBC Insurance (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

**What we have audited**

The consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2019;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

## 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 consolidated and separate financial statements section of our report.

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

**Independence**

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the Management Report.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

## Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and 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 Group or the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 Group's and 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 Group's and 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 consolidated and separate 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 Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

27 March 2020
Tbilisi, Georgia

PricewaterhouseCoopers Georgia LLC

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| Financial statement captions<br>'000 GEL | Notes | Consolidated<br>31-Dec-19 | Consolidated<br>31-Dec-18 | Separate<br>31-Dec-19 | Separate<br>31-Dec-18 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 5 | 7,481 | 6,339 | 7,462 | 6,042 |
| Bank deposits | 6 | 29,881 | 17,279 | 29,881 | 17,279 |
| Investment securities held to maturity | 7 | 1,116 | 502 | 1,116 | 502 |
| Derivative financial assets | | 175 | 65 | 175 | 65 |
| Investment in subsidiaries | | - | - | 1,000 | 1,655 |
| Insurance receivables | 8 | 20,277 | 15,881 | 20,277 | 15,881 |
| Reinsurance receivables | 9 | 8,666 | 2,891 | 8,666 | 2,891 |
| Ceded share of insurance contract reserves | 10 | 7,207 | 42,952 | 7,207 | 42,952 |
| Deferred acquisition costs | 11 | 1,121 | 852 | 1,121 | 852 |
| Other assets | 12 | 549 | 1,532 | 538 | 557 |
| Right-of-use assets | 13 | 1,820 | - | 1,760 | - |
| Property and equipment | 14 | 1,612 | 1,433 | 1,541 | 1,327 |
| Intangible assets | 15 | 1,685 | 717 | 1,451 | 704 |
| **TOTAL ASSETS** | | **81,590** | **90,443** | **82,195** | **90,707** |
| Share capital | 17 | 7,482 | 7,482 | 7,482 | 7,482 |
| Other reserves | 17 | 1,300 | 39 | 220 | 39 |
| Retained earnings, including: | | 12,686 | 5,969 | 14,441 | 6,288 |
| *Profit for the year* | | *6,717* | *7,326* | *8,153* | *7,645* |
| **TOTAL EQUITY** | | **21,468** | **13,490** | **22,143** | **13,809** |
| Insurance contract reserves | 10 | 32,402 | 52,571 | 32,402 | 52,571 |
| Commission payables | | 11,829 | 9,547 | 11,829 | 9,547 |
| Reinsurance payables | | 7,855 | 7,350 | 7,855 | 7,350 |
| Current portion of lease liabilities | | 835 | - | 786 | - |
| Lease liabilities | | 1,188 | - | 1,174 | - |
| Financial liabilities | | 926 | 1,103 | 919 | 1,055 |
| Current income tax liability | 24 | 605 | 1,217 | 605 | 1,217 |
| Deferred income tax liability | 24 | 5 | 81 | 5 | 81 |
| Other liabilities | 16 | 4,477 | 5,084 | 4,477 | 5,077 |
| **TOTAL LIABILITIES** | | **60,122** | **76,953** | **60,052** | **76,898** |
| **TOTAL LIABILITIES & EQUITY** | | **81,590** | **90,443** | **82,195** | **90,707** |

Approved for issue and signed on behalf of the Board of Directors on 27 March 2020.

David Kiguradze
Deputy General Director

Shota Tsiskarashvili
Head of Financial Department

| | | Consolidated | | Separate | |
|---|---|---|---|---|---|
| **Financial Statement captions** | | **2019** | **2018** | **2019** | **2018** |
| *'000 GEL* | **Notes** | | | | |
| Gross written premiums | | 79,089 | 60,108 | 79,089 | 60,108 |
| Written premiums ceded to reinsurers | | (19,251) | (26,626) | (19,251) | (26,626) |
| **Net premiums written** | 18 | **59,838** | **33,482** | **59,838** | **33,482** |
| Change in the gross reserves for unearned premiums | | (6,523) | (7,774) | (6,523) | (7,774) |
| Reinsurers' share of change in the reserves for unearned premiums | | (7,679) | 5,315 | (7,679) | 5,315 |
| **Net earned premiums** | 18 | **45,636** | **31,023** | **45,636** | **31,023** |
| Interest income | | 2,788 | 1,587 | 2,779 | 1,586 |
| Reinsurance commission income | | 7,197 | 5,576 | 7,197 | 5,576 |
| Other income | | 507 | 579 | 250 | 314 |
| **Total income** | | **56,128** | **38,765** | **55,862** | **38,499** |
| Claims settled | | (30,411) | (19,577) | (30,411) | (19,577) |
| Reinsurance share in claims settled | | 17,516 | 12,448 | 17,516 | 12,448 |
| Change in outstanding claims | | 26,692 | (30,017) | 26,692 | (30,017) |
| Reinsurance share in change in outstanding claims | | (28,066) | 29,365 | (28,066) | 29,365 |
| Subrogation and recoveries | | 1,039 | 617 | 1,039 | 617 |
| Expenses associated with claims | | (329) | (136) | (329) | (136) |
| **Net claims incurred** | 19 | **(13,559)** | **(7,300)** | **(13,559)** | **(7,300)** |
| Acquisition costs | 20 | (15,276) | (12,580) | (15,276) | (12,580) |
| Salaries & other employee benefits | 21 | (10,920) | (4,999) | (9,875) | (4,761) |
| General and administrative expenses | 22 | (5,942) | (4,470) | (5,340) | (4,139) |
| Depreciation | 14 | (492) | (313) | (471) | (306) |
| Amortization | 15 | (275) | (157) | (265) | (150) |
| Depreciation rent | 13 | (729) | - | (708) | - |
| Impairment charge | 23 | (367) | (270) | (367) | (270) |
| Finance cost rent | | (168) | - | (165) | - |
| Foreign exchange gain/losses | | (125) | 53 | (125) | 55 |
| **Income/(loss) before tax** | | **8,275** | **8,729** | **9,711** | **9,048** |
| Income tax (expense)/credit | 24 | (1,558) | (1,403) | (1,558) | (1,403) |
| **Net income/(loss)** | | **6,717** | **7,326** | **8,153** | **7,645** |
| Other comprehensive income/losses | | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME/LOSSES FOR THE YEAR** | | **6,717** | **7,326** | **8,153** | **7,645** |

| _'000 GEL_ | **Notes** | **2019** | **2018** | **2019** | **2018** |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit / Loss before income tax | | 8,275 | 8,729 | 9,711 | 9,048 |
| Adjustments for: | | | | | |
| Depreciation & amortization | 13/14/15 | 1,496 | 470 | 1,445 | 456 |
| Finance costs | | 168 | - | 165 | - |
| Interest income | | (2,788) | (1,587) | (2,779) | (1,586) |
| Impairment charge | 23 | (372) | 687 | (372) | 687 |
| Foreign exchange gain/losses | | 125 | 53 | 125 | 55 |
| Losses less gains on disposals of property, plant and equipment | | (6) | - | (6) | - |
| Other reserves | | (212) | 19 | (194) | 19 |
| ***Changes in:*** | | | | | |
| Deferred acquisition cost | 11 | (269) | (105) | (269) | (105) |
| Unearned premium reserve | 10 | 6,523 | 7,774 | 6,523 | 7,774 |
| Reinsurer's share in unearned premium reserve | 10 | 7,679 | (5,315) | 7,679 | (5,315) |
| Gross change in reported but not settled claims | 10 | (26,352) | 29,976 | (26,352) | 29,976 |
| Reinsurer's share of change in reported but not settled claims | 10 | 28,066 | (29,365) | 28,066 | (29,365) |
| Incurred but not reported claims, net of reinsurance | 10 | (340) | 40 | (340) | 40 |
| Insurance receivables | 8 | (3,418) | (6,595) | (3,418) | (6,595) |
| Reinsurance receivables | 9 | (4,899) | (1,411) | (4,899) | (1,411) |
| Other assets | 12 | (1,081) | (1,219) | 19 | (384) |
| Commission payables | | 2,285 | 4,973 | 2,285 | 4,973 |
| Reinsurance payables | | (777) | 2,560 | (777) | 2,560 |
| Income taxes paid | 24 | (2,247) | - | (2,246) | - |
| Other liabilities | | 685 | 2,066 | (751) | 2,081 |
| **Cash flows from operating activities** | | **12,541** | **11,750** | **13,615** | **12,908** |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property and equipment | 14 | (1,048) | (893) | (718) | (794) |
| Proceeds from the sale of property, plant and equipment | 14 | 45 | - | 38 | - |
| Acquisition of intangible assets | 15 | (1,401) | (427) | (1,076) | (427) |
| Proceeds from the sale of intangible assets | 15 | 67 | - | 65 | - |
| Change in Investment in subsidiaries | | - | - | 1,030 | (1,655) |
| Acquisition of subsidiaries, net of cash acquired | | (596) | (104) | - | - |
| Proceeds from the sale of the subsidiaries to the entities under common control, net of disposed cash | | 1,622 | - | - | - |
| Change in derivative financial assets | | (316) | 101 | (316) | 101 |
| Acquisition of investment securities held to maturity | 7 | (599) | (502) | (599) | (502) |
| Change in bank deposits | 6 | (10,755) | (11,651) | (10,764) | (11,652) |
| Interest received | 6 | 926 | 883 | 926 | 883 |
| **Net cash used in investing activities** | | **(12,055)** | **(12,593)** | **(11,414)** | **(14,046)** |

| | | | | |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Repayment of lease liabilities | (828) | - | (810) | - |
| Proceeds from disposal of subsidiaries, net of disposed cash | 1,455 | - | - | - |
| Proceeds from issue of share capital | - | 800 | - | 800 |
| **Net cash from financing activities** | **627** | **800** | **(810)** | **800** |
| **Net (decrease)/increase in cash and cash equivalents** | **1,113** | **(43)** | **1,391** | **(338)** |
| Cash and cash equivalents at 1 January | 6,339 | 6,368 | 6,042 | 6,368 |
| Effect of exchange rate on cash and cash equivalents | 29 | 14 | 29 | 12 |
| **Cash and cash equivalents at 31 December** | **7,481** | **6,339** | **7,462** | **6,042** |

| **Consolidated** *'000 GEL* | **Share Capital** | **Other Reserves** | **Retained Earnings** | **Total** |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 6,682 | 20 | (1,357) | 5,345 |
| Profit for the year | | | 7,326 | 7,326 |
| **Total comprehensive loss for the year** | **-** | **-** | **7,326** | **7,326** |
| **Contributions by the owners** | | | | |
| Issue of Share Capital | 800 | | | 800 |
| Other movement | | 19 | | 19 |
| **Total contributions by the owners** | **800** | **19** | **-** | **819** |
| **Balance as at 31 December 2018** | **7,482** | **39** | **5,969** | **13,490** |
| Balance as at 1 January 2019 | 7,482 | 39 | 5,969 | 13,490 |
| Profit for the Year | | | 6,717 | 6,717 |
| **Total comprehensive income for the year** | **-** | **-** | **6,717** | **6,717** |
| Sale of subsidiaries to the entities under common control | | 1,455 | | 1,455 |
| Other movement | | (194) | | (194) |
| **Total contributions by the owners** | **-** | **1,261** | **-** | **1,261** |
| **Balance as at 31 December 2019** | **7,482** | **1,300** | **12,686** | **21,468** |

| **Separate**<br>*'000 GEL* | **Share Capital** | **Other Reserves** | **Retained Earnings** | **Total** |
|---|---|---|---|---|
| Balance as at 1 January 2018 | 6,682 | 20 | (1,357) | 5,345 |
| Profit for the year | | | 7,645 | 7,645 |
| **Total comprehensive loss for the year** | **-** | **-** | **7,645** | **7,645** |
| **Contributions by the owners** | | | | |
| Issue of Share Capital | 800 | | | 800 |
| Other movement | | 19 | | 19 |
| **Total contributions by the owners** | **800** | **19** | **-** | **819** |
| **Balance as at 31 December 2018** | **7,482** | **39** | **6,288** | **13,809** |
| Balance as at 1 January 2019 | 7,482 | 39 | 6,288 | 13,809 |
| Profit for the Year | | | 8,153 | 8,153 |
| **Total comprehensive income for the year** | **-** | **-** | **8,153** | **8,153** |
| Sale of subsidiaries to the entities under common control | | 375 | | 375 |
| Other movement | | (194) | | (194) |
| **Total contributions by the owners** | **-** | **181** | **-** | **181** |
| **Balance as at 31 December 2019** | **7,482** | **220** | **14,441** | **22,143** |

## 1 Reporting entity

### (a) Organization and operations

These consolidated and separate financial statements include the financial statements of TBC Insurance JSC (the Company) and its subsidiaries (together referred to as the Group).

TBC Insurance JSC is joint stock company as it is defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia and was incorporated on 8 May 2014. The Company is licensed to provide non-life and life insurance services in Georgia, issued by the Insurance State Supervision Service of Georgia on 14 July 2014 and 1 December 2016, respectively. TBC Insurance JSC provides insurance services in property and casualty, motor, life and property insurance and other non-health segments. The Company's registering body is LEPL- National Agency of Public Registry. The Company's registered address and place of business is Al. Kazbegi Avenue, N24b, III Floor, Tbilisi, Georgia. The Company's registration number is 405042804.

The Company has one fully-owned subsidiary entity – Redmed LLC. Redmed LLC was formed and domiciled in Georgia as a limited liability company under Georgian law on 21 June 2019, with 1,000 thousand GEL of initial capital contribution made by TBC Insurance JSC. The principal business activity of the subsidiary entity is e-commerce.

### (b) Georgian business environment

The Group's operations are in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated and separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 2 Basis of accounting

### Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16, Leases, effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group has applied temporary exemptions from IFRS 9 *Financial Instruments* as permitted by IFRS 4 Insurance Contracts (more than 90% of the Group's liabilities comprise of insurance liabilities) and has not previously adopted any version of IFRS 9, including the requirements from the presentation of gains and losses on financial liabilities designated FVTPL, for annual periods beginning before 1 January 2018. Group plans to have a single date of initial application of 1 January 2022 of whole IFRS 9.

## 3 Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Group's functional currency and the currency in which these consolidated and separate financial statements are presented.

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

## 4 Use of estimates and judgements

The preparation of consolidated and separate financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management has not made any critical judgments apart from those involving estimations in the process of applying the Group's accounting policies that have a significant effect on the amounts recognised in these consolidated and separate financial statements.

### Assumptions and sensitivities

#### *Process used to determine the assumptions*

The assumptions used in the estimation of insurance assets and liabilities are intended to result in reserves which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

Reserve is made at the statement of financial position date for the expected ultimate cost of settlement of all claims notified in respect of events up to that date, whether reported or not, less amounts already paid.

The Group makes estimate of the ultimate liability arising from claims under life and health insurance contracts that are incurred but not yet reported at the reporting date. The ultimate cost of IBNR is calculated by using standard actuarial methods such as chain-ladder method for life insurance and expected loss ratio method for health insurance. The primary underlying assumption of the chain-ladder method is that historical loss development patterns are indicative of future loss development patterns. The expected loss ratio is the ratio of ultimate losses to earned premiums. The ultimate losses can be calculated as the earned premium multiplied by the expected loss ratio. The total reserve is calculated as the ultimate losses less paid losses.

The carrying amount of IBNR reserve net of reinsurance as at 31 December 2019 was 242 thousand GEL (2018: 582 thousand GEL).

There are several sources of uncertainty that need to be considered in the estimation of the IBNR reserve. Sensitivity analysis for life insurance shows that 5% increase in the chain-ladder development factors would increase IBNR reserve requirement by 145 thousand GEL, accordingly 5% decrease in the development factors would decrease IBNR reserve requirement by 145 thousand GEL. Sensitivity analysis for health insurance shows that 5% increase in the expected loss ratio would increase IBNR reserve requirement by 33 thousand GEL, accordingly 5% decrease in the development factors would decrease IBNR reserve requirement by 33 thousand GEL.

## 4 Use of estimates and judgements (Continued)

Management believes that the reserve set up is adequate and there will be no need of additional reserve requirements.

## 5 Cash and cash equivalents

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| Cash on Hand | 4 | 4 |
| Current Accounts | 7,477 | 6,335 |
| **Total cash and cash equivalents** | **7,481** | **6,339** |

Credit ratings of cash and cash equivalents were as follows:

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| BB | 6 | 6 |
| BB- | 3,416 | 6,316 |
| B+ | 4,048 | 2 |
| Not rated | 11 | 15 |
| **Total** | **7,481** | **6,339** |

## 6 Bank deposits

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| JSC TBC Bank | 10,704 | 7,202 |
| JSC Bank of Georgia | 5,000 | 1,000 |
| JSC Liberty Bank | 4,500 | 3,000 |
| JSC Tera Bank | 4,000 | 1,500 |
| JSC VTB Bank | 2,000 | 2,500 |
| JSC Finca Bank | 500 | 1,250 |
| JSC Credo Georgia | 500 | - |
| **Total bank deposits** | **27,204** | **16,452** |

Out of total amount of deposit placed at JSC TBC Bank, 4,200 thousand GEL is attributable to minimum capital requirements set by the Insurance State Supervision Service of Georgia.

Bank deposit balances are neither past due nor impaired. Bank deposits are represented by placements with Georgian commercial banks with maturity of less than three years and earn annual interest of 10.00% to 11.90%. Bank deposits placed with related party (JSC TBC Bank) earn annual interest rate of 10.83% to 11.50% (note 30).

## 6 Bank Deposits (Continued)

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| JSC TBC Bank | 1,140 | 144 |
| JSC Bank of Georgia | 323 | 65 |
| JSC Liberty Bank | 558 | 194 |
| JSC Tera Bank | 403 | 108 |
| JSC VTB Bank | 178 | 213 |
| JSC Finca Bank | 42 | 103 |
| JSC Credo Georgia | 33 | - |
| **Total accrued interest** | **2,677** | **827** |

Credit ratings of placements with banks were as follows:

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| BB- | 19,345 | 11,124 |
| B+ | 5,058 | 3,194 |
| Not rated | 5,478 | 2,961 |
| **Total** | **29,881** | **17,279** |

As at 31 December 2019, 16,702 thousand GEL, out of total balance of bank deposits had maturity of less than one year, while the remaining balance had maturity of more than one year and less than three years. As at 31 December 2018 4,615 thousand GEL, out of total balance of bank deposits had maturity of less than one year, while the remaining balance had maturity of more than one year and less than two years.

## 7 Investment securities held to maturity

| *'000 GEL* | |
|---|---|
| Carrying amount as of 1 January 2018 | - |
| Purchases | 500 |
| Interest income accrual | 2 |
| **Carrying amount as of 31 December 2018** | **502** |
| **Carrying amount as of 1 January 2019** | **502** |
| Purchases | 600 |
| Interest income accrual | 14 |
| **Carrying amount as of 31 December 2019** | **1,116** |

**Investment securities held to maturity comprise of following corporate bonds:**

1. "JSC Georgian Beer Group" with the rating of BB, Maturity of the bond is 21st December 2023.
2. "JSC Nikora" with the rating of BB-, Maturity of the bond is 18th October 2022.
3. "Tegeta Motors LLC" with the rating of BB-, Maturity of the bond is 30th April 2022.

## 8 Insurance receivables

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| **Insurance receivables, gross:** | **20,932** | **16,164** |
| *Life insurance contracts* | *1,988* | *1,780* |
| *General insurance contracts* | *18,944* | *14,384* |
| **Less - provision for impairment for amounts due from policyholders:** | **(655)** | **(283)** |
| *General insurance contracts* | *(655)* | *(283)* |
| **Insurance receivables, net:** | **20,277** | **15,881** |

There is no provision for life insurance contracts as management believes that all amounts are fully collectible (note 28).

## 9 Reinsurance receivables

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Receivables from reinsurer | 8,486 | 1,461 |
| Commission from reinsurer | 201 | 1,451 |
| **Total receivables and commission from reinsurer** | **8,687** | **2,912** |
| Less – provision for impairment for amounts due from reinsurers: | (21) | (21) |
| **Total reinsurance receivables, net:** | **8,666** | **2,891** |

## 10 Insurance contract reserves and Ceded share of insurance contract reserves

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| **Insurance contract reserves** | | |
| Unearned premiums reserves | 26,227 | 19,704 |
| Reported but not settled claims | 5,933 | 32,285 |
| Incurred but not reported claims | 242 | 582 |
| **Total insurance contract reserves** | **32,402** | **52,571** |
| **Ceded share of insurance contract reserves** | | |
| Unearned premiums reserves | (4,843) | (12,522) |
| Reported but not settled claims | (2,364) | (30,430) |
| **Ceded share of insurance contract reserves** | **(7,207)** | **(42,952)** |
| **Insurance contracts reserves net of reinsurance** | | |
| Unearned premiums reserves | 21,384 | 7,182 |
| Reported but not settled claims | 3,569 | 1,855 |
| Incurred but not reported claims | 242 | 582 |
| **Total insurance contract reserves net of reinsurance** | **25,195** | **9,619** |

## 10 Insurance contract reserves and ceded share of insurance contract reserves (Continued)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| *UPR Reserve '000 GEL* | **Unearned premium reserve** | **Reinsurers share in unearned premium reserve** | **Net** | **Unearned premium reserve** | **Reinsurers share in unearned premium reserve** | **Net** |
| Life Insurance | 114 | (35) | 79 | 10 | (5) | 5 |
| Motor Insurance | 17,426 | (2,206) | 15,220 | 14,736 | (9,847) | 4,889 |
| Property Insurance | 4,506 | (1,959) | 2,547 | 3,608 | (2,267) | 1,341 |
| Liability Insurance | 984 | (624) | 360 | 652 | (381) | 271 |
| Health Insurance | 2,612 | - | 2,612 | - | - | - |
| Other | 585 | (19) | 566 | 698 | (22) | 676 |
| **Total** | **26,227** | **(4,843)** | **21,384** | **19,704** | **(12,522)** | **7,182** |

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| *RBNS Reserve '000 GEL* | **Reported but not settled claims** | **Reinsurers share of Reported but not settled claims** | **Net** | **Reported but not settled claims** | **Reinsurers share of Reported but not settled claims** | **Net** |
| Life Insurance | 1,016 | (762) | 254 | 1,503 | (1,131) | 372 |
| Motor Insurance | 2,606 | (1,053) | 1,553 | 1,612 | (998) | 614 |
| Property Insurance | 1,194 | (549) | 645 | 346 | - | 346 |
| Liability Insurance | 449 | - | 449 | 28,350 | (28,301) | 49 |
| Health Insurance | 327 | - | 327 | - | - | - |
| Other | 341 | - | 341 | 474 | - | 474 |
| **Total** | **5,933** | **(2,364)** | **3,569** | **32,285** | **(30,430)** | **1,855** |

Incurred but not reported claims reserve is only related to life and health insurance policies. Respective reserve is not created for other insurance policies as long as there is no lag between accident date and reporting date of the claim.

## 10 Insurance contract reserves and ceded share of insurance contract reserves (Continued)

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | *'000 GEL* | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** |
| **a** | Life Insurance Contracts | 1,290 | (793) | **497** | 2,108 | (1,132) | **976** |
| **b** | General Insurance Contracts | 31,112 | (6,414) | **24,698** | 50,463 | (41,820) | **8,643** |
| | **Total Insurance Contract Reserves** | **32,402** | **(7,207)** | **25,195** | **52,571** | **(42,952)** | **9,619** |

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | *'000 GEL* | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** |
| **a** | **At 1 January** | **2,108** | **(1,132)** | **976** | **1,575** | **(455)** | **1,120** |
| | Premiums written during the year | 22,891 | (4,927) | **17,964** | 19,288 | (4,232) | **15,056** |
| | Premiums earned during the year | (22,811) | 4,897 | **(17,914)** | (19,263) | 4,231 | **(15,032)** |
| | Claims incurred during the year | 4,170 | (3,089) | **1,081** | 4,879 | (3,580) | **1,299** |
| | Claims settled during the year | (4,656) | 3,458 | **(1,198)** | (4,410) | 2,904 | **(1,506)** |
| | Incurred but not reported claims | (412) | - | **(412)** | 39 | - | **39** |
| | **At 31 December** | **1,290** | **(793)** | **497** | **2,108** | **(1,132)** | **976** |

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | *'000 GEL* | **Insurance contract reserves** | **Reinsurers' share of Insurance contract reserves** | **Net** | **Insurance contract reserves** | **Reinsurers' share of Insurance contract reserves** | **Net** |
| **b** | **At 1 January** | **50,463** | **(41,820)** | **8,643** | **13,206** | **(7,817)** | **5,389** |
| | Premiums written during the year | 56,198 | (14,324) | **41,874** | 40,820 | (22,394) | **18,426** |
| | Premiums earned during the year | (49,755) | 22,033 | **(27,722)** | (33,071) | 17,080 | **(15,991)** |
| | Claims incurred during the year | (111) | 13,639 | **13,528** | 44,675 | (38,233) | **6,442** |
| | Claims settled during the year | (25,755) | 14,058 | **(11,697)** | (15,167) | 9,544 | **(5,623)** |
| | Incurred but not reported claims | 72 | - | **72** | - | - | **-** |
| | **At 31 December** | **31,112** | **(6,414)** | **24,698** | **50,463** | **(41,820)** | **8,643** |

## 11 Deferred acquisition cost

| *'000 GEL* | **Deferred acquisition cost** |
|---|---|
| **At 1 January 2018** | **747** |
| Deferred expenses | 1,715 |
| Amortisation of deferred expenses | (1,610) |
| **At 31 December 2018** | **852** |
| Deferred expenses | 2,363 |
| Amortisation of deferred expenses | (2,094) |
| **At 31 December 2019** | **1,121** |

## 12 Other assets

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Other prepayments | 195 | 1,090 |
| Inventories | 267 | 268 |
| Tax prepayments | 74 | 145 |
| Other receivables | 13 | 29 |
| **Total Other Assets** | **549** | **1,532** |

## 13 Right-of-use assets

The Group leases only offices. Rental contracts are typically made for fixed periods from 6 months to 5 years but may have extension options as described below.

Until 31 December 2018 leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group. Movements after application of new IFRS 16 standard are detailed below (For details on first adoption refer to note 32.).

| *'000 GEL* | **Buildings** | **Total** |
|---|---|---|
| **Carrying amount at 1 January 2019** | **2,256** | **2,256** |
| Additions | 293 | 293 |
| Depreciation charge | (729) | (729) |
| **Carrying amount at 31 December 2019** | **1,820** | **1,820** |

## 14 Property and equipment

| *'000 GEL* | Furniture and computer equipment | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance at 1 January 2018 | 644 | 62 | 437 | 1,143 |
| Additions | 409 | 105 | 410 | 924 |
| Disposals | (4) | (19) | (11) | (34) |
| **Balance at 31 December 2018** | **1,049** | **148** | **836** | **2,033** |
| Balance at 1 January 2019 | 1,049 | 148 | 836 | 2,033 |
| Additions | 721 | 97 | 234 | 1,052 |
| Disposals | (376) | (63) | (66) | (505) |
| **Balance at 31 December 2019** | **1,394** | **182** | **1,004** | **2,580** |
| **Accumulated Depreciation:** | | | | |
| Balance at 1 January 2018 | 209 | 10 | 85 | 304 |
| Charge for the year | 167 | 12 | 134 | 313 |
| Disposals | (3) | (7) | (7) | (17) |
| **Balance at 31 December 2018** | **373** | **15** | **212** | **600** |
| Balance at 1 January 2019 | 373 | 15 | 212 | 600 |
| Charge for the year | 261 | 18 | 213 | 492 |
| Disposals | (103) | (16) | (5) | (124) |
| **Balance at 31 December 2019** | **531** | **17** | **420** | **968** |
| **Net Book Value** | | | | |
| **31 December 2018** | **676** | **133** | **624** | **1,433** |
| **31 December 2019** | **863** | **165** | **584** | **1,612** |

## 15 Intangible assets

| *'000 GEL* | Licenses | Computer & Other software | Total |
|---|---|---|---|
| **Cost:** | | | |
| Balance at 1 January 2018 | 67 | 529 | 596 |
| Additions | 7 | 526 | 533 |
| Disposals | - | (139) | (139) |
| **Balance at 31 December 2018** | **74** | **916** | **990** |
| Balance at 1 January 2019 | 74 | 916 | 990 |
| Additions | 21 | 1,380 | 1,401 |
| Disposals | (6) | (255) | (261) |
| **Balance at 31 December 2019** | **89** | **2,041** | **2,130** |
| **Accumulated Depreciation:** | | | |
| Balance at 1 January 2018 | 44 | 125 | 169 |
| Charge for the year | 11 | 146 | 157 |
| Disposals | - | (53) | (53) |
| **Balance at 31 December 2018** | **55** | **218** | **273** |
| Balance at 1 January 2019 | 55 | 218 | 273 |
| Charge for the year | - | 275 | 275 |
| Disposals | - | (103) | (103) |
| **Balance at 31 December 2019** | **55** | **390** | **445** |
| **Net Book Value** | | | |
| **31 December 2018** | **19** | **698** | **717** |
| **31 December 2019** | **34** | **1,651** | **1,685** |

## 16 Other liabilities

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Accruals for employee compensation | 1,420 | 257 |
| Long term benefit plan | 1,388 | - |
| Reinsurance commission reserve | 945 | 4,270 |
| Advances received | 700 | 412 |
| Taxes Payables | - | 37 |
| Other liabilities | 24 | 108 |
| **Total other liabilities** | **4,477** | **5,084** |

Reinsurance commission reserve is attributable to unearned portion of commission receivable from reinsurer.

## 17 Equity

### (a) Share capital

| *Number of shares unless otherwise stated* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Par value | GEL 1 | GEL 1 |
| **On issue, fully paid** | **7,481,870** | **7,481,870** |

As at 31 December 2019, the Group had an authorized share capital of 15,000 thousand GEL (31 December 2018: 15,000 thousand GEL).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

### (b) Dividends

In accordance with Georgian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory consolidated and separate financial statements prepared in accordance with IFRSs.

No dividends were declared or paid in 2019 and 2018.

### (c) Sale of subsidiary to the entities under common control

On 1st April 2019, TBC Insurance sold 100% of its subsidiaries (JSC Swoop, G Commerce LLC and All Property Ge LLC) to JSC TBC International – Entity under common control.

Proceed from the sale of subsidiaries purchased in 2018:

| *'000 GEL* | |
|---|---|
| **Proceeds from sale of subsidiary** | **1,559** |
| Book value at 1 January 2019 | 1,589 |
| Injected Capital | 500 |
| Losses during 2019 | (851) |
| **Gain from sale of subsidiaries to the entities under common control** | **321** |

## 17 Equity (Continued)

Proceed from the sale of subsidiary purchased in 2019:

| *'000 GEL* | |
|---|---|
| **Proceeds from sale of subsidiary** | **1,980** |
| Purchase amount | 599 |
| Injected Capital | 410 |
| Losses during 2019 | (163) |
| **Gain from sale of subsidiaries to the entities under common control** | **1,134** |

Companies were acquired and founded with the purpose to develop the businesses, in line with TBC Bank Group PLC strategic goals. Subsequent sale to entity under common control occurred as a result of change in strategy of managing the new initiatives and related reorganization in the wider group**.**

## 18 Net earned premiums

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Premium written on life insurance contracts | 22,891 | 19,288 |
| Premium written on general insurance contracts | 56,198 | 40,820 |
| **Total premiums written** | **79,089** | **60,108** |
| Change in gross reserves for life unearned premiums | (80) | (25) |
| Change in gross reserves for general unearned premiums | (6,443) | (7,749) |
| **Total earned premiums** | **72,566** | **52,334** |
| Reinsurers' earned premium on life insurance contracts | (4,897) | (4,231) |
| Reinsurers' earned premium on general insurance contracts | (22,033) | (17,080) |
| **Total net earned premiums** | **45,636** | **31,023** |

## 19 Net claims incurred

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Life insurance claims settled | (4,656) | (4,410) |
| General insurance claims settled | (25,755) | (15,167) |
| Reinsurer's share of life insurance claims settled | 3,458 | 2,904 |
| Reinsurer's share of general insurance claims settled | 14,058 | 9,544 |
| **Total net claims settled** | **(12,895)** | **(7,129)** |
| Gross change in reported but not settled claims | 26,352 | (29,977) |
| Incurred but not reported claims | 340 | (40) |
| Reinsurer's share of change in reported but not settled claims | (28,066) | 29,365 |
| Subrogation and Recoveries | 1,039 | 617 |
| Expenses Associated with Claims | (329) | (136) |
| **Net claims incurred** | **(13,559)** | **(7,300)** |

## 19 Net claims incurred (Continued)

Distribution of claims incurred for contracts entered into force during 2019 and 2018 between product types are set out below:

| *'000 GEL - 2019* | **Claims settled** | **Reported but not settled claims** | **Total claims** | **Reinsurer's share in claims settled** | **Reinsurer's share in reported but not settled claims** | **Total reinsurer's share in claims** |
|---|---|---|---|---|---|---|
| Life Insurance | 2,964 | 934 | 3,898 | 2,214 | 700 | 2,914 |
| Motor Insurance | 10,981 | 2,022 | 13,003 | 5,652 | 732 | 6,384 |
| Property Insurance | 2,688 | 445 | 3,133 | 1,409 | 33 | 1,442 |
| Liability Insurance | 80 | 449 | 529 | - | - | - |
| Health Insurance | 647 | 327 | 974 | - | - | - |
| Other | 367 | 280 | 647 | - | - | - |
| **Total** | **17,727** | **4,457** | **22,184** | **9,275** | **1,465** | **10,740** |

| *'000 GEL - 2018* | **Claims settled** | **Reported but not settled claims** | **Total Claims** | **Reinsurer's share in claims settled** | **Reinsurer's share in reported but not settled claims** | **Total reinsurer's share in claims** |
|---|---|---|---|---|---|---|
| Life Insurance | 3,003 | 1,500 | 4,503 | 2,244 | 1,129 | 3,373 |
| Motor Insurance | 7,542 | 1,350 | 8,892 | 5,231 | 894 | 6,125 |
| Property Insurance | 610 | 343 | 953 | 24 | - | 24 |
| Liability Insurance | 112 | 28,338 | 28,450 | - | 28,301 | 28,301 |
| Health Insurance | - | - | - | - | - | - |
| Other | 246 | 445 | 691 | - | - | - |
| **Total** | **11,513** | **31,976** | **43,489** | **7,499** | **30,324** | **37,823** |

## 20 Acquisition costs

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Acquisition costs | (15,545) | (12,685) |
| Acquisition costs deferred | 2,363 | 1,715 |
| Amortisation of deferred acquisition costs | (2,094) | (1,610) |
| **Total acquisition costs** | **(15,276)** | **(12,580)** |

## 21 Salaries and other employee benefits

| *'000 GEL* | **2019** | **2018** |
|---|---|---|
| Salaries | (6,435) | (3,418) |
| Bonuses management | (2,584) | (261) |
| Bonuses other | (1,347) | (1,056) |
| Other staff benefits | (20) | (26) |
| Insurance and other benefits | (534) | (238) |
| **Total salaries & other employee benefits** | **(10,920)** | **(4,999)** |

## 22 General and administrative expenses

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| Marketing and PR | (1,306) | (839) |
| Software and Technical Support | (790) | (461) |
| Supervisory Fee | (726) | (523) |
| Professional service fee | (419) | (222) |
| Office purchases | (355) | (243) |
| Evacuator expenses | (328) | (244) |
| Office Rent | (313) | (626) |
| BMTPL Management Fee | (260) | (309) |
| Post, Telecomm, Utilities | (240) | (172) |
| Bank fees and other commissions | (161) | (77) |
| Car fuel and other expenses | (140) | (120) |
| Representative expenses | (127) | (55) |
| Business trips | (107) | (92) |
| Other Admin Costs | (670) | (487) |
| **Total General and administrative expenses** | **(5,942)** | **(4,470)** |

Professional service fee above includes GEL 106 thousand (2018: GEL 80 thousand) fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

## 23 Allowance for Impairment

The movement in the allowance for insurance and reinsurance receivables were as follows:

| *'000 GEL* | Insurance Receivables | Reinsurance Receivables |
|---|---|---|
| **At 1 January 2018** | **(970)** | **-** |
| Charge | (248) | (21) |
| Write-Off | 935 | - |
| **At 31 December 2018** | **(283)** | **(21)** |
| Charge | (367) | - |
| Other movement | (5) | - |
| **At 31 December 2019** | **(655)** | **(21)** |

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Insurance receivable balance with amount of 935 thousand GEL, which was overdue by more than 2 years, were assessed as uncollectible and written off during 2018.

## 24 Income tax expense

Income tax expense comprises of the following:

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| Current tax charge | 1,634 | 1,217 |
| Deferred tax (credit)/charge | (76) | 186 |
| **Income tax expense for the year** | **1,558** | **1,403** |

The Group's applicable income tax rate was 15% (2018: 15%).

Reconciliation between the expected and the actual taxation charge is provided below:

| *'000 GEL* | 2019 | 2018 |
|---|---|---|
| **Profit Before Tax** | **8,275** | **8,729** |
| Theoretical tax charge at statutory rate | 1,241 | 1,309 |
| - Income which is exempt from taxation | (73) | (16) |
| - Non-deductible expenses | 390 | (15) |
| - Effect of change in tax legislation | - | 125 |
| **Income tax expense for the year** | **1,558** | **1,403** |

**Movement in temporary differences during the period:**

| *'000 GEL* | 1 January 2019 | Recognized in profit or loss | 31 December 2019 |
|---|---|---|---|
| Property and equipment | 47 | 54 | 101 |
| Deferred acquisition costs | (128) | 22 | (106) |
| Tax loss carry forwards | - | - | - |
| **Deferred tax liability** | **(81)** | **76** | **(5)** |

| *'000 GEL* | 1 January 2018 | Recognized in profit or loss | 31 December 2018 |
|---|---|---|---|
| Property and equipment | (28) | 75 | 47 |
| Deferred acquisition costs | (71) | (57) | (128) |
| Tax loss carry forwards | 204 | (204) | - |
| **Deferred tax asset** | **105** | **(186)** | **(81)** |

On 13 May 2016 the Parliament of Georgia passed a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

On 28th of December 2018, the law was further amended. The Financial Institution's transition to the new taxation system becomes effective from 1st January 2023, instead of 1st January 2019.

## 24 Income tax expense (Continued)

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1st January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

## 25 Offsetting financial assets and financial liabilities

As of 31 December 2019 and 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

| '000 GEL | 2019 Gross amounts before offsetting | 2019 Gross amounts set off | 2019 Net amount after offsetting | 2018 Gross amounts before offsetting | 2018 Gross amounts set off | 2018 Net amount after offsetting |
|---|---|---|---|---|---|---|
| | **(a)** | **(b)** | **(c) = (a) - (b)** | **(a)** | **(b)** | **(c) = (a) - (b)** |
| Reinsurance receivables | 8,666 | - | 8,666 | 7,771 | 4,880 | 2,891 |
| **Total assets subject to offsetting, master netting and similar arrangement** | **8,666** | **-** | **8,666** | **7,771** | **4,880** | **2,891** |
| Reinsurance payables | 7,855 | - | 7,855 | 12,230 | 4,880 | 7,350 |
| **Total liabilities subject to offsetting, master netting and similar arrangement** | **7,855** | **-** | **7,855** | **12,230** | **4,880** | **7,350** |

## 26 Capital Management

### (a) Capital management objectives, policies and approach

The main objective of capital management is to monitor and maintain, at all times, an appropriate level of capital which is commensurate with the Group's risk profile. The capital management of the Group has the following objectives:

- Compliance with the requirements of the Insurance State Supervision Services of Georgia;
- Maintain financial strength to support new business growth and to satisfy the requirements of policyholders, regulator and other stakeholders;
- Maintaining the composition and structure of the assets accepted to cover insurance liabilities, when due and to exceed regulatory requirements; and
- Maintaining the required level of stability of the Group thereby providing a degree of security to policyholders.

It is in the Group's interest to maintain adequate capital resources at all times and to fulfil respective minimum regulatory capital requirements. The primary source of capital used by the Group is financed through the issuance of shares. Maintaining a good capital base in the future is of crucial importance to the Group, both to allow the Group to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

**26 Capital Management (Continued)**

As part of the process monitoring and managing its capital, the Group has implemented controls over conformity of the composition and structure of the assets, enabling the Group to constantly maintain a minimum level of funds, placed in top Georgian banks.

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.

ISSSG sets regulatory capital requirements in Georgia. ISSSG requirement is to maintain capital of GEL 4,200 thousand of which 100% percent should be kept at the banking institutions licensed in Georgia.

JSC TBC Insurance was in compliance with capital requirements set by ISSSG during 2019 and 2018.

**(b) Regulatory requirements**

According to the ISSSG directive №04, issued on 20 April 2015, the minimum capital throughout the period should be not less than GEL 2,200 thousand and the Group should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances. Minimum capital requirement increased from December 2018 to GEL 4,200 thousand.

The Group was in compliance with the externally imposed capital requirements as at 31 December 2019.

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 benchmarking against RSM. 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 not less than either 50% of RSM or GEL 2,200 thousand throughout the period from 1 January 2017 to 1 July 2017;
- The Regulatory Capital should be not less than either 75% of RSM or GEL 2,200 thousand throughout the period from 1 July 2017 to 1 January 2018; and
- The Regulatory Capital should be at least either 100% of RSM or GEL 2,200 thousand throughout the period from 1 January 2018.
- The Regulatory Capital should be at least either 100% of RSM or GEL 4,200 thousand throughout the period from 1st December 2018.

The Regulatory Capital is determined based on the IFRS equity in the statement of financial position, adjusted for, for example, investments in subsidiaries and associates, unsecured loans and borrowings, etc. as prescribed by the ISSSG directive №16.

As at the date these consolidated and separate financial statements were authorized for issue, the Group was in full compliance with the level of Regulatory Capital in respect of 100% of RSM.

## 27 Insurance risk management

### (a) Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Group assumes the risk of loss from individuals or organisations that are directly subject to the risk. Such risks mainly relate to life, motor and other non-health segments, such as, property, liability, cargo, travel or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Group also has exposure to market risk through its insurance and investment activities. The Group manages its insurance risk through the use of reinsurance of risk concentrations, underwriting limits, approval procedures for transactions and monitoring of emerging issues.

#### *(i) Underwriting strategy*

The Group's underwriting strategy seeks diversity so that the Group's portfolio at all times includes several classes of non-correlating risks and that each class of risk, in turn, is spread across a large number of policies. Management believes that this approach reduces the variability of the outcome.

The underwriting strategy is set out in the Group's insurance risk management policies. The strategy is implemented through underwriting guidelines that determine detailed underwriting rules for each type of product. The guidelines contain insurance concepts and procedures, descriptions of inherent risk, terms and conditions, rights and obligations, documentation requirements, template agreement/policy examples, rationale of applicable tariffs and factors that would affect the applicable tariff. The tariff calculations are based on probability and variation.

Adherence to the underwriting guidelines is monitored by the Deputy General Director on an on-going basis.

#### *(ii) Reinsurance strategy*

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys Treaty reinsurance for the biggest lines of business, Life, Casco and Property and also Facultatively Reinsures every risk in the above-mentioned products that fall out of the Treaty Reinsurance limitations.

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

### (b) Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Group's main products and the ways in which it manages the associated risks.

## 27 Insurance risk management (Continued)

### *(i) Motor insurance*

***Product features***

The Group has two types of Motor insurance, fully comprehensive insurance ("Casco") and motor third party liability insurance ("MTPL"). Under Casco contracts, corporate entities and individuals are reimbursed for any loss of, or damage caused to their vehicles. MTPL contracts provide indemnity cover to the owner of the motor vehicle against compensation payable to third parties for property damage, death or personal injury. Motor insurance includes short tail coverage.

Claims that are typically made quickly are those that indemnify the policyholder against motor physical damage or loss. Claims that take longer to finalise, and are more difficult to estimate, relate to bodily injury claims.

***Management of risk***

In general, motor claims reporting lags are minor, if any, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimations risk. The Group monitors and reacts to trends in repair costs, injury awards and the frequency of theft and accident claims.

The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Group's current experience.

### *(ii) Property insurance*

***Product features***

The Group writes property insurance. This is comprised of corporate and retail property insurance. Property insurance indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as short-tailed.

***Management of risk***

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

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different properties it insures. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

These risks are managed primarily through the pricing and reinsurance processes. The Group uses strict underwriting criteria to ensure that the risk of losses is acceptable to the Group. The Group reinsures its property risks by way of Excess of Loss, Surplus and Nat Cat treaties.

## 27 Insurance risk management (Continued)

### *(iii) Life insurance*

***Product features***

The Group writes life insurance contracts where the event giving a rise to claim is the death or permanent disability of the beneficiary and the policyholder is insured for the remaining credit towards financial institution of for a pre-determined amount.

***Management of risk***

The Group's underwriting strategy is to ensure that risks are well diversified by industry sectors and geography. The Group also has right to reject payment in case a fraudulent claim is identified. The Group uses reinsurance contracts for all life insurance risks and the exposure of risk is limited to 25% of total claim. One of the key risks associated with this product is the lag between the accident date and reporting date of the claim. Because of this risk, incurred but not reported claims reserve is set up for life insurance contracts, calculated according to the chain-ladder statistical methodology.

### (c) Concentrations of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts with similar risk features and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contract tranches.

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

The Group's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Group purchases reinsurance coverage for various classes of its motor, life and property business. The Group assesses the costs and benefits associated with the reinsurance programme on an on-going basis.

### (d) Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Group. The table compares the claims paid on an accident year basis with the reserves established for these claims. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the table provides a reconciliation of the total reserves included in the statement of financial position and the estimate of cumulative claims. While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these consolidated and separate financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding at the end of 2019 is adequate.

## 27 Insurance risk management (Continued)

*'000 GEL*

| Estimate of cumulative claims | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|
| Accident Year | 323 | 5,415 | 4,131 | 10,830 | 49,050 | 32,548 | - |
| One Year Later | 324 | 5,632 | 4,117 | 11,214 | 20,552 | - | - |
| Two Years Later | 323 | 5,674 | 4,131 | 11,194 | - | - | - |
| Three Years Later | 323 | 5,780 | 4,123 | - | - | - | - |
| Four Years Later | 323 | 5,817 | - | - | - | - | - |
| Six Years Later | 323 | - | - | - | - | - | - |
| **Current estimate of incurred claims** | **323** | **5,817** | **4,123** | **11,194** | **20,552** | **32,548** | **74,557** |
| Accident Year | (245) | (4,724) | (3,580) | (8,621) | (16,978) | (26,917) | - |
| One Year Later | (323) | (5,569) | (4,108) | (11,145) | (20,428) | - | - |
| Two Years Later | (323) | (5,584) | (4,108) | (11,174) | - | - | - |
| Three Years Later | (323) | (5,659) | (4,123) | - | - | - | - |
| Four Years Later | (323) | (5,659) | - | - | - | - | - |
| Six Years Later | (323) | - | - | - | - | - | - |
| **Cumulative payments to date** | **(323)** | **(5,659)** | **(4,123)** | **(11,174)** | **(20,428)** | **(26,917)** | **(68,624)** |
| **Gross outstanding claims reserve** | **-** | **158** | **-** | **20** | **124** | **5,631** | **5,933** |

### *(i) Liability adequacy test*

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets for each line of business which are managed together. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified the related deferred acquisition cost is written down and, if necessary, an additional reserve (unexpired risk reserve) is established. The deficiency is recognised in profit or loss for the year. During 2019 and 2018 no shortfall was identified and therefore there was no need for additional URR reserve

### (e) Reinsurance risk

The Group cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Group's evaluation of the specific risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. When selecting a reinsurer, the Group considers their relative creditworthiness.

## 28 Fair values and risk management

### (a) Fair value of financial assets and liabilities

A number of the Group's accounting policies and disclosures require the determination of fair values for financial assets and financial liabilities. Fair values have been determined for disclosure purposes.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

**28 Fair values and risk management (Continued)**

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

## 28 Fair values and risk management (Continued)

### *(ii) Assets and liabilities not measured at fair value but for which fair value is disclosed:*

| | 31-December-2019 | | | | 31-December-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| *'000 GEL* | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| Cash and cash equivalents | 4 | 7,477 | - | **7,481** | 4 | 6,335 | - | **6,339** |
| Certificates of deposits | - | 27,661 | - | **27,661** | - | 13,214 | - | **13,214** |
| Term deposits | - | 2,220 | - | **2,220** | - | 4,065 | - | **4,065** |
| Investment securities held to maturity | - | 1,116 | - | **1,116** | - | 502 | - | **502** |
| **Total assets** | **4** | **38,474** | **-** | **38,478** | **4** | **24,116** | **-** | **24,120** |
| Other financial liabilities | - | 926 | - | **926** | - | 1,103 | - | **1,103** |
| **Total liabilities** | **-** | **926** | **-** | **926** | **-** | **1,103** | **-** | **1,103** |

Investment securities held to maturity, were quoted at the date of purchase but the market has disappeared subsequently.

### *(iii) Recurring fair value measurements:*

| | 31-December-2019 | | | | 31-December-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| *'000 GEL* | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| Derivative financial assets | - | 175 | - | **175** | - | 65 | - | **65** |
| **Total Assets** | **-** | **175** | **-** | **175** | **-** | **65** | **-** | **65** |

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts due to short maturities of most of the aforementioned instruments. Interest rates of investment securities held to maturity are tied to National Bank of Georgia rates and therefore carrying amount approximates fair value.

### (b) Presentation of financial instruments by measurement category

For the measurement purposes, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL").

## 28 Fair values and risk management (Continued)

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. At the reporting date (as well as in financial year 2018) all financial assets were classified as (a) loans and receivables. All of the Group's financial liabilities were carried at amortised cost.

### (c) Derivative financial assets

Derivative financial assets consist of foreign exchange forward contracts used to manage Group's exposure to fluctuations in foreign currency exchange rates. Inputs used to determine fair value of the derivative assets are foreign exchange rates and are all directly observable on the active market.

### (d) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated and separate financial statements.

#### *(iv) Risk management framework*

The Supervisory Board together with the Group's management has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies and reporting regularly to the shareholders on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Supervisory Board monitors the Group's management compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

#### *(v) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

The Group reinsures certain risks with the reinsurance companies. The selection of reinsurance companies is based on criteria mainly related to solvency, reliability and creditworthiness of the counterparty.

## 28 Fair values and risk management (Continued)

### *Credit exposure*

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

| *'000 GEL* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Insurance receivables | 20,277 | 15,881 |
| Reinsurance receivables | 8,666 | 2,891 |
| Derivative financial assets | 175 | 65 |
| Investment securities held to maturity | 1,116 | 502 |
| Bank deposits | 29,881 | 17,279 |
| Cash and cash equivalents | 7,481 | 6,339 |
| **Total credit exposure** | **67,596** | **42,957** |

The aging of insurance receivables at the reporting date was:

| *'000 GEL* | **Gross 2019** | **Impairment 2019** | **Gross 2018** | **Impairment 2018** |
|---|---|---|---|---|
| Not past due | 17,725 | - | 13,411 | - |
| Past due 0-30 days | 2,653 | 101 | 2,303 | - |
| Past due 30-90 days | 40 | 40 | 137 | 23 |
| Past due 91-180 days | 75 | 75 | 114 | 61 |
| Past due 181-270 days | 65 | 65 | 52 | 52 |
| Past due 271-365 days | 58 | 58 | 81 | 81 |
| Past due more than one year | 316 | 316 | 66 | 66 |
| **Total** | **20,932** | **655** | **16,164** | **283** |

The Group is not subject to significant credit risk on receivables arising out of direct insurance operations as policies are cancelled and the unearned premium reserve relating to the policy is similarly cancelled when there is objective evidence that the policyholder is not willing or able to continue paying policy premiums.

Management believes that impairment trigger on insurance policies is 30 days overdue.

### *(vi) Liquidity risk*

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

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

## 28 Fair values and risk management (Continued)

### *(vii) Maturity profiles*

The Group uses maturity analysis in managing its liquidity risk. Most of the Group's financial liabilities are contractually due to be settled in a year after the reporting date, excluding gross finance lease obligations (GEL 2,438 thousand, maturity in range of 3-5 years) (before deducting future finance charges). Management estimates that the timing of cash outflows from insurance contract liabilities does not exceed one year.

### *(viii) Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

To mitigate the Group's exposure to market risk policies and procedures are in place to set and monitor asset allocation and portfolio limit structures.

### *(ix) Currency risk*

The Group's assets and liabilities are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Group has an open currency position ("OCP") and is exposed to potentially unfavourable changes in exchange rates.

Management is responsible for continuously monitoring the development of exchange rates and foreign currency markets. The Group aims to close currency positions and ensures that an open currency position remains within the limits at all times.

The Group is exposed to currency risk mainly on insurance receivables and payables denominated in USD and EUR. The Group's exposure to foreign currency risk was as follows:

| *'000 GEL* | **USD denominated 31 December 2019** | **EUR denominated 31 December 2019** | **USD denominated 31 December 2018** | **EUR denominated 31 December 2018** |
|---|---|---|---|---|
| Cash and cash equivalents | 324 | 27 | 2,051 | 8 |
| Insurance receivables | 11,880 | 919 | 11,604 | 642 |
| Reinsurance receivables | 6,991 | 1,708 | 2,825 | 66 |
| Ceded share of insurance contract reserves | 1,069 | 29 | - | - |
| Insurance contract reserves | (2,271) | (81) | - | - |
| Reinsurance payables | (6,412) | (1,269) | (7,208) | (142) |
| Lease liabilities | (1,961) | - | - | - |
| Other liabilities | (261) | 96 | (100) | - |
| **Net On-Balance Exposure** | **9,359** | **1,429** | **9,172** | **574** |
| Derivative instruments | (4,732) | - | (8,565) | - |
| **Net Exposure** | **4,627** | **1,429** | **607** | **574** |

## 28 Fair values and risk management (Continued)

The following significant exchange rates have been applied:

| | Average Rate | Reporting date spot rate |
|---|---|---|
| **In GEL** | **2019** | **31 December 2019** |
| USD | 2.8192 | 2.8677 |
| EUR | 3.1553 | 3.2095 |

| | Average Rate | Reporting date spot rate |
|---|---|---|
| **In GEL** | **2018** | **31 December 2018** |
| USD | 2.5345 | 2.6766 |
| EUR | 2.9913 | 3.0701 |

### *Sensitivity analysis*

A reasonably possible strengthening (weakening) of GEL, as indicated below, against USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss after tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant:

| *'000 GEL* | **Strengthening** | **Weakening** |
|---|---|---|
| | **Profit or (Loss) and Equity** | **Profit or (Loss) and Equity** |
| **31 December 2019** | | |
| USD (10% movement) | (393) | 393 |
| EUR (10% movement) | (121) | 121 |
| **31 December 2018** | | |
| USD (10% movement) | (52) | 52 |
| EUR (10% movement) | (49) | 49 |

### *(x) Interest rate risk*

Interest rate risk is the risk that fluctuations in market interest rates will affect adversely the financial position and the results of operations of the Group.

The Group has low exposure to floating rate interest bearing instruments. Financial assets that are exposed to interest rate risk are investment securities held to maturity. it comprises only 1.7% of total credit exposure, therefore, management believes that the Group does not have significant exposure to interest rate risk.

## 29 Contingencies

### (e) Legal proceedings

In the normal course of business, the Group is a party to legal actions, mainly related to claims or subrogation payments. There are no major legal disputes as of the reporting date which could have a material impact on the Group's financial position.

### (f) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after four years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated and separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant. (Note 23)

## 30 Related parties

### (a) Parent and ultimate controlling party

As at 31 December 2019 and 2018 the Group's immediate and ultimate parent of the Group and the Company was TBC Bank Group PLC.

### (b) Key management remuneration

Key management includes Directors (executive).

| | **2019** | | **2018** | |
|---|---|---|---|---|
| *'000 GEL* | Expense | Accrued Liability | Expense | Accrued Liability |
| Salaries and bonuses | 2,284 | 1,196 | 503 | 218 |
| Other long-term benefits | 1,388 | 1,388 | - | - |
| Share-based compensation | 20 | - | 26 | - |
| Post-employment benefits & Insurance | 11 | - | - | - |
| **Total key management compensation** | **3,703** | **2,584** | **529** | **218** |

Starting from financial year 2019, TBC Insurance JSC grants shares to top management for the next five years. Share price is determined by predetermined formula based on forecasted IFRS results and expense accrual in 2019 equals 1,388 thousand GEL.

There are several sources of uncertainty that need to be considered in the estimation of the management long - term incentive plan. Sensitivity analysis shows that 10% increase in certain formula KPIs could increase accrual amount up to 1,642 thousand GEL, while 10% decrease in the same KPIs would decrease accrual amount to 1,134 thousand GEL.

## 30 Related Parties (Continued)

### (c) Transactions with other related parties

The outstanding balances and related expense and income as for the year ended 31 December 2019 and 2018 with related parties are as follows:

| *'000 GEL* | **2019** Entities Under Common Control* | Other | Percent of Total | **2018** Entities Under Common Control* | Other | Percent of Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 3,404 | - | 46% | 3,947 | - | 62% |
| Bank deposits | 11,844 | - | 40% | 7,346 | - | 43% |
| Derivative financial assets | 175 | - | 100% | 65 | - | 100% |
| Insurance receivables | 2,822 | 191 | 15% | 2,631 | 107 | 17% |
| Other assets | - | - | 0% | - | - | 0% |
| | **18,245** | **191** | **23%** | **13,989** | **107** | **16%** |
| **Liabilities** | | | | | | |
| Insurance contract reserves | 4,414 | 188 | 14% | 32,121 | 213 | 62% |
| Commission payables | 10,270 | - | 87% | 8,710 | - | 91% |
| Lease Liability | 129 | - | 6% | - | - | 0% |
| | **14,813** | **188** | **25%** | **40,831** | **213** | **53%** |
| *Off – Balance; derivatives assets* | *-* | *-* | *0%* | *4,416* | *-* | *100%* |
| *Off – Balance; derivatives liabilities* | *4,732* | *-* | *100%* | *4,149* | *-* | *100%* |

| *'000 GEL* | **2019** Entities under common control | Other related parties | Percent of total | **2018** Entities under common control | Other related parties | Percent of total |
|---|---|---|---|---|---|---|
| **Income Statement** | | | | | | |
| Earned premium | 32,497 | 560 | 46% | 26,705 | 335 | 52% |
| Interest income | 1,152 | - | 41% | 563 | - | 35% |
| Claims incurred | 21,812 | (26) | 586% | (33,787) | (22) | 68% |
| Acquisition costs | (10,309) | - | 67% | (8,576) | - | 68% |
| Foreign exchange gain/losses | (216) | - | 173% | 268 | - | 506% |
| | **44,936** | **534** | | **(14,827)** | **313** | |

Bank deposits placed with related parties earn annual interest rate of 10.83% to 11.50%.

Entities under common control include TBC Group PLC subsidiaries.

Other related parties mostly comprise of TBC Bank Group PLC, TBC Bank Group PLC Top Management and organisations related to TBC Bank Group PLC Top Management.

## 31 Significant accounting policies

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### (a) Consolidated and separate financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in it. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

### (b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

### (c) Insurance contracts

#### *(i) Classification of contracts*

Contracts under which the Group accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiary are classified as insurance contracts.

## 31 Significant accounting policies (Continued)

Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant claims. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire. Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as financial instruments.

Financial guarantee contracts are accounted for as insurance contracts.

### *(ii) Recognition and measurement of contracts*

***Premiums***

Gross premiums written comprise premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are

disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period using the daily pro-rata method. Outward reinsurance premiums are recognised as an expense in accordance with the daily pro-rata method. The portion of outward reinsurance premiums not recognised as an expense is treated as a prepayment.

***Policy cancellations***

Policies are cancelled if there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Cancellations therefore affect mostly those policies where policy premiums are paid in instalments over the term of the policy.

***Unearned premium reserve***

The reserve for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method.

### *(iii) Gross carrying amount and write – offs*

Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The premiums are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the premium segment and client type.

## 31 Significant accounting policies (Continued)

***Claims***

Net claims incurred comprise claims settled during the financial year together with the movement in the reserve for notified claims. Claims outstanding comprise reserves for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not.

Claims notified are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in external claims handling expenses, legislative changes and past experience and trends. Reserves for claims notified are not discounted.

Anticipated reinsurance and subrogation recoveries are recognised separately as assets. Reinsurance and subrogation recoveries are assessed in a manner similar to the assessment of claims notified.

Adjustments to the amounts of claims reserves established in prior years are reflected in the consolidated and separate financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

***(iv) Reinsurance***

The Group cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the partial transfer of risk to reinsurers. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in profit or loss and statement of financial position on a gross basis.

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

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

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

***(v) Deferred commission income***

The Group receives commissions for ceding premiums to reinsurers. This type of commission is recognised within insurance activity result in profit or loss. Commission income from ceded reinsurance premiums that represent the recovery of acquisition costs reduces the applicable unamortised acquisition costs in such a manner that net acquisition costs are capitalised and

charged to expenses in proportion to net insurance income recognised. Changes in deferred commission income on reinsurance ceded are disclosed in the consolidated and separate statement of profit or loss and other comprehensive income.

## 31 Significant accounting policies (Continued)

### *(vi) Deferred acquisition costs (DAC)*

Acquisition costs, representing commissions paid to insurance agents and brokers and other costs directly related to acquisition are deferred and amortized over the period in which the related written premiums are earned, to the extent that these costs are recoverable out of future premiums. Deferred acquisition costs are reduced by commissions due on impaired insurance policies related to future periods.

### *(vii) Insurance receivables and payables*

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

### (d) Financial instruments

The Group classifies non-derivative financial assets into the loans and receivables category. The Group classifies non-derivative financial liabilities into the other financial liabilities' category.

### *(i) Non-derivative financial assets and financial liabilities – recognition and derecognition*

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### *(ii) Derivative financial assets and financial liabilities*

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on

the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

### *Loans and receivables*

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

## 31 Significant accounting policies (Continued)

***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

***(iii) Non-derivative financial liabilities - measurement***

The Group classifies non-derivative financial liabilities into the other financial liabilities' category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

***(iv) Offsetting***

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

***(v) Gains and losses on subsequent measurement***

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

***(vi) Share capital***

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

**(e) Property and equipment**

***(i) Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within other income or other expense in profit or loss.

***(ii) Subsequent expenditure***

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount

of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

## 31 Significant accounting policies (Continued)

### *(iii) Depreciation*

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of furniture and equipment varies from 5 to 10 years; for leasehold improvements the useful life is the term of underlying lease or if not defined, not more than 7 years and useful life for motor vehicles is 10 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (f) Right-of-use assets

The Group leases only offices. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

### (g) Intangible assets

The Group’s intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Capitalised computer software is amortised on a straight-line basis over expected useful lives of 1 to 10 years.

## 31 Significant accounting policies (Continued)

### (h) Impairment

### *(i) Non-derivative financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

***Financial assets measured at amortised cost***

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment.

Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

### *(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

## 31 Significant accounting policies (Continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (i) Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of office leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable

only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

## 31 Significant accounting policies (Continued)

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

### (j) Long - term employee benefits

A long – term incentive benefit is an agreement between the group and an employee that entitles the employee to receive cash in exchange of the consideration of services. JSC TBC insurance grants shares to top management employees. The award is done through the issuance of new shares. After the contract termination date top management must sell shares back to the company and the company is obliged to purchase them back. The long – term incentive plan is accounted under IAS 19 and is based on actual IFRS results and predetermined formula that will calculate the payable amount at the termination date of the scheme. At the end of each period the total expected value of terminal payment is estimated based on budget / forecast. Each year budgeted figures are updated based on the actual financial results. Accruals are made on the straight – line basis discounted for the remaining years until the termination date. Interest rate on 5 year high-rated corporate bonds is used for discounting, however, in the absence of a deep market for corporate bonds, government bond interest rates can be used.

Upon issue of shares share capital is increased at nominal value of the shares. Increase in share capital is balanced by other component of equity. Upon repurchase of shares at the termination date the payment entry is recorded against liability accrued. The equity reserve is credited in full.

### (k) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

#### *(i) Current tax*

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However, some other transactions are also considered as DE, for example non-arm’s length cross-border transactions with related parties and/or with persons exempted from tax are also considered as

DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity’s economic activities, free of charge supply and over-limit representative expenses.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

## 31 Significant accounting policies (Continued)

### *(ii) Deferred tax*

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1st January 2023, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1st January 2023 against which the temporary differences, unused tax losses

and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1st January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

## 32 Adoption of New or Revised Standards and Interpretations

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Group decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- applied modified retrospective approach,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

## 32 Adoption of New or Revised Standards and Interpretations (Continued)

The weighted average incremental borrowing rate applied be the Group to the leased liabilities on 1 January 2019 for USD denominated leases was 7.5%. The weighted average incremental borrowing rate applied be the Group to the leased liabilities on 1 January 2019 for GEL denominated leases was 11.0%.

As at 31 December 2018 the Group had non-cancellable lease commitments of GEL 2,438 thousand. Of these commitments, GEL 15 thousand related to short-term leases and had no low values leases which both are recognised on a straight-line basis as an expense in profit or loss.

| *'000 GEL* | **31 December 2018 / 1 January 2019** |
|---|---|
| Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 | 2,438 |
| - Effect of discounting to present value | (329) |
| - Less short-term leases not recognised as a liability | (15) |
| **Total lease liabilities recognized as at 1 January 2019** | **2,094** |

## 33 New Standards and Interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).*** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain

or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated and separate financial statements.

**Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"** (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard allows companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to

## 33 New Standards and Interpretations not yet adopted (Continued)

address the temporary volatility. The Company decided to defer adoption of IFRS 9 and met the related qualifying conditions because (i) its liabilities connected with insurance exceeded 90% of total liabilities at 31 December 2018 and (ii) there were no subsequent substantial changes in the entity's activities. The Company expects to apply IFRS 9 from 2021.

We provide the following disclosures about our financial assets as of 31 December 2018 in order to enable comparison with entities that apply IFRS 9 from 1 January 2019:

| | **Assets that are solely payments of principal and interest (SPPI)** | | **Carrying value (IAS 39) of assets that are solely payments of principal and interest analyzed by credit rating (gross carrying value in the case of assets at amortized cost)** | | | **Fair value of assets rated BB – B+ or without rating (excluding low credit risk assets)** |
|---|---|---|---|---|---|---|
| **2019 in** *'000 GEL* | **Fair Value** | **Fair value gains / (losses) for the year** | **BB-B+** | **Without rating** | **Total for ratings BB – B+ and without rating** | |
| ***Held to maturity financial assets:*** | | | | | | |
| Corporate bonds | 1,116 | - | 1,116 | - | 1,116 | **1,116** |
| **Total held to maturity financial assets** | **1,116** | **-** | **1,116** | **-** | **1,116** | **1,116** |
| ***Loans and receivables:*** | | | | | | |
| Bank deposits | 29,881 | - | 24,403 | 5,478 | 29,881 | **29,881** |
| Cash and cash equivalents | 7,481 | - | 7,470 | 11 | 7,481 | **7,481** |
| **Total financial assets at amortized cost** | **37,362** | **-** | **31,873** | **5,489** | **37,362** | **37,362** |

## 33 New Standards and Interpretations not yet adopted (Continued)

We provide the following disclosures about our financial assets as of 31 December 2018 in order to enable comparison with entities that apply IFRS 9 from 1 January 2018:

| | Assets that are solely payments of principal and interest (SPPI) | | Carrying value (IAS 39) of assets that are solely payments of principal and interest analyzed by credit rating (gross carrying value in the case of assets at amortized cost) | | | Fair value of assets rated BB-B+ or without rating (excluding low credit risk assets) |
|---|---|---|---|---|---|---|
| **2018 in** *'000 GEL* | **Fair Value** | **Fair value gains / (losses) for the year** | **BB-B+** | **Without rating** | **Total for ratings BB-B+ and without rating** | |
| ***Held to maturity financial assets:*** | | | | | | |
| Corporate bonds | 502 | - | 502 | - | 502 | **502** |
| **Total held to maturity financial assets** | **502** | **-** | **502** | **-** | **502** | **502** |
| ***Loans and receivables:*** | | | | | | |
| Bank deposits | 17,279 | - | 14,318 | 2,961 | 17,279 | **17,279** |
| Cash and cash equivalents | 6,339 | - | 6,324 | 15 | 6,339 | **6,339** |
| **Total financial assets at amortized cost** | **23,618** | **-** | **20,642** | **2,976** | **23,618** | **23,618** |

None of our financial assets failed the SPPI test.

***IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).*** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its consolidated and separate financial statements.

***Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).*** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

**33 New Standards and Interpretations not yet adopted (Continued)**

***Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).*** The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'.

The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

***Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its consolidated and separate financial statements.

***Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)***. The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimizes any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge

## 33 New Standards and Interpretations not yet adopted (Continued)

ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Group is currently assessing the impact of the amendments on its consolidated and separate financial statements. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated and separate financial statements.

***Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).*** These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified

as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group is currently assessing the impact of the amendments on its financial statements.

## 34 Accounting Policies for leases before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, Leases, are as follows.

**Operating leases**. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

**Finance lease liabilities.** Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets

## 34 Accounting Policies for leases before 1 January 2019 (Continued)

acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

## 35 Subsequent Events

JSC TBC Insurance was in compliance with capital requirements set by ISSSG during subsequent period of 2019.

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at the year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these consolidated and separate financial statements, to date there has been no discernible impact on the Group's sales or supply chain, however the future effects cannot be predicted precisely, however management has discussed several aspects of the business and evaluated risks:

1. Management expects significant decrease in retail insurance activity on the market, however, has implemented grace period for policy payment in order to maintain portfolio.

2. Corporate activity will be less elastic to this pandemic as it is mostly connected to big development projects or is directly required from investors.

3. Life insurance claims will not increase due to the COVID-19 pandemic as this risk is not covered with existing insurance policies.

4. Casco claims frequency and claims ratio will decrease in the short-term period due to the social distancing rules posed by the Government that decreased transportation.

5. TBC Insurance health insurance portfolio is fully B2B, therefore management expects that premium collection will not be significantly delayed and cancellation ratios will not increase. Moreover, it is expected that claims ratio will not increase as due to social distancing society tries to avoid unnecessary gatherings even in places like hospitals.

Management will continue to monitor the potential impact of COVID-19 and will take all steps possible to mitigate any effect. Moreover, the management has evaluated the going concern issue and is preparing several forecasts based on contrasting future scenarios. Even if the negative situation continues for the next several months having severe impact on the insurance business generally in Georgia and, hence, decreasing TBC Insurance revenue, management assumes that due to the considerably high levels of liquidity and solvency TBC Insurance will have no going concern issue.