

*Translated from original Georgian*

**JSC “Insurance Company Tao”**  
Financial Statements and  
Independent Auditors’ Report  
For the year ended December 31, 2019

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## **Independent auditor's report**

To the Shareholders and the Supervisory Board of JSC "Insurance Company Tao"

### **Opinion**

We have audited the financial statements of JSC "Insurance Company Tao" (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code together with the ethical requirements that are relevant to our audit of the financial statements in Georgia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter – Event After the Reporting Period**

We draw attention to note 32 of the financial statements, which describes events after the reporting period before approval of the financial statement. Our opinion is not modified in respect of these matter.

### **Other Information**

Management is responsible for the other information. The other information comprises the Management Report for the year ended 31 December 2019, but does not include the financial statements and our auditor's report thereon. The management report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially consistent with the financial statements and with the regulatory requirements, or otherwise appears to be materially misstated based on our knowledge obtained in the audit. If, based on the work we perform on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

The engagement partner on the audit resulting in this independent auditor's report is Malkhaz Ujmajuridze.

Malkhaz Ujmajuridze

For and on behalf of Nexia TA LLC

April 8, 2020

Tbilisi, Georgia

**Independent auditor's report**

To the Shareholders and the Supervisory Board of JSC "Insurance Company Tao"

**Opinion**

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Closer to you

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Malkhaz Ujmajuridze

For and on behalf of Nexia TA LLC

April 8, 2020

Tbilisi, Georgia



Closer to you

**JSC “Insurance Company Tao”**  
Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 31 December 2019  
(In thousands of Georgian Lari)

	Notes	2019	2018
Gross premiums written		6,622	6,002
Written premiums ceded to reinsurers		-	(10)
<b>Net premiums</b>		<b>6,622</b>	<b>5,992</b>
Change in unearned premium provision, gross		(317)	(2,073)
Change in unearned premium provision, reinsurers share		(4)	4
<b>Net earned premiums</b>	<b>7</b>	<b>6,301</b>	<b>3,923</b>
Gross benefits and claims paid	<b>8</b>	(2,297)	(811)
Change in outstanding claims	<b>9</b>	(1,296)	(475)
<b>Net claims</b>		<b>(3,593)</b>	<b>(1,286)</b>
Subrogations and recoveries	<b>10</b>	363	97
Acquisition costs	<b>11</b>	(282)	(174)
<b>Insurance activity result</b>		<b>2,789</b>	<b>2,560</b>
Net interest income	<b>12</b>	1,132	760
General and administrative expenses	<b>13</b>	(566)	(371)
Net foreign exchange rate effect on foreign currency	<b>14</b>	98	106
Income from penalties		24	8
Other income		51	5
<b>Profit before tax</b>		<b>3,528</b>	<b>3,068</b>
Income tax expense	<b>15</b>	(555)	(466)
<b>Net profit for the year</b>		<b>2,973</b>	<b>2,602</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>2,973</b>	<b>2,602</b>

These financial statements were approved and signed on behalf of management on April 8, 2020:

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**Lasha Khakhutaishvili**  
General Director

JSC "Insurance Company Tao"  
Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 31 December 2019  
(In thousands of Georgian Lari)

	Notes	2019	2018
Gross premiums written		6,622	6,002
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These financial statements were approved and signed on behalf of management on April 8, 2020:

  
Lasha Khakhtaishvili  
General Director

**JSC “Insurance Company Tao”**  
Statement of Financial Position  
As of 31 December 2019  
*(In thousands of Georgian Lari)*

	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
Cash and cash equivalents	16	617	654
Amounts due from credit institutions	17	7,387	6,349
Insurance receivable	18	2,595	2,220
Accounts receivable	19	51	35
Loans issued	20	5,251	3,338
Other financial assets	21	207	200
Prepayments	22	200	161
Deferred acquisition costs	11	43	64
Right-of-use asset	23	48	-
Reinsurance assets		-	4
Intangible assets		1	1
<b>Total assets</b>		<b>16,400</b>	<b>13,026</b>
<b>Liabilities</b>			
Reinsurance payable		-	9
Other liabilities	24	799	556
Insurance contracts liabilities	25	4,288	2,674
Lease liability	26	53	-
<b>Total liabilities</b>		<b>5,140</b>	<b>3,239</b>
<b>Equity</b>			
Share capital	27	2,500	2,500
Retained earnings	27	8,760	7,287
<b>Total equity</b>		<b>11,260</b>	<b>9,787</b>
<b>Total liabilities and equity</b>		<b>16,400</b>	<b>13,026</b>

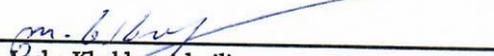
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\_\_\_\_\_  
**Lasha Khakhutaishvili**  
General Director

**JSC "Insurance Company Tao"**  
Statement of Financial Position  
As of 31 December 2019  
(In thousands of Georgian Lari)

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These financial statements were approved and signed on behalf of management on April 8, 2020:

  
Lasha Khakhutaishvili  
General Director

**JSC “Insurance Company Tao”**  
Statement of Changes in Equity  
For the year ended 31 December 2019  
*(In thousands of Georgian Lari)*

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	<b>Share capital</b> <b>(note 27)</b>	<b>Retained</b> <b>earnings</b>	<b>Total</b>
<b>31 December 2017</b>	<b>2,500</b>	<b>4,685</b>	<b>7,185</b>
Total comprehensive income for the year	-	2,602	<b>2,602</b>
<b>31 December 2018</b>	<b>2,500</b>	<b>7,287</b>	<b>9,787</b>
Total comprehensive income for the year	-	2,973	<b>2,973</b>
Dividends paid (note 27)	-	(1,500)	<b>(1,500)</b>
<b>31 December 2019</b>	<b>2,500</b>	<b>8,760</b>	<b>11,260</b>

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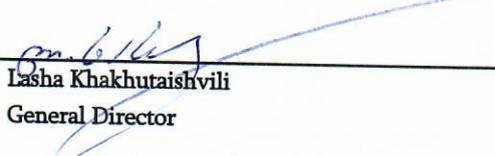
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**Lasha Khakhutaishvili**  
**General Director**

JSC "Insurance Company Tao"  
Statement of Changes in Equity  
For the year ended 31 December 2019  
(In thousands of Georgian Lari)

	Share capital (note 27)	Retained earnings	Total
<b>31 December 2017</b>	<b>2,500</b>	<b>4,685</b>	<b>7,185</b>
Total comprehensive income for the year	-	2,602	2,602
<b>31 December 2018</b>	<b>2,500</b>	<b>7,287</b>	<b>9,787</b>
Total comprehensive income for the year	-	2,973	2,973
Dividends paid (note 27)	-	(1,500)	(1,500)
<b>31 December 2019</b>	<b>2,500</b>	<b>8,760</b>	<b>11,260</b>

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Lasha Khakhutaishvili  
General Director

**JSC “Insurance Company Tao”**  
Statement of Cash Flows  
For the year ended 31 December 2019  
(In thousands of Georgian Lari)

	Notes	2019	2018
<b>Cash flows from operating activities</b>			
Insurance premiums received		5,973	3,640
Reinsurance premiums paid		(10)	-
Insurance benefits and claims paid		(1,923)	(749)
Acquisition costs paid		(171)	(124)
Salaries and benefits paid		(53)	(67)
Proceeds from Regress and Salvage		287	141
Interest received		580	197
Tax paid except income tax		(31)	(9)
Other operating expenses paid		(220)	(175)
<b>Net cash flows from operating activities before income tax</b>		<b>4,432</b>	<b>2,854</b>
Income tax paid		(486)	(194)
<b>Net cash flows from operating activities</b>		<b>3,946</b>	<b>2,660</b>
<b>Cash flows used in investing activities</b>			
Loan Issued		(4,170)	(4,124)
Proceeds from repayment of loan issued		2,388	2,745
Purchase of promissory notes		-	(400)
Proceeds from receiving of promissory notes		-	306
Placement of bank deposits		(4,010)	(5,950)
Withdrawal of bank deposits		3,309	5,300
<b>Net cash flows from investing activities</b>		<b>(2,483)</b>	<b>(2,123)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	27	(1,500)	-
<b>Net cash flows from financing activities</b>		<b>(1,500)</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>		<b>(37)</b>	<b>537</b>
<b>Cash and cash equivalents, 1 January</b>	<b>16</b>	<b>654</b>	<b>117</b>
<b>Cash and cash equivalents, 31 December</b>		<b>617</b>	<b>654</b>

These financial statements were approved and signed on behalf of management on April 8, 2020:

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**Lasha Khakhutaishvili**  
General Director

**JSC "Insurance Company Tao"**  
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<b>Net change in cash and cash equivalents</b>		<b>(37)</b>	<b>537</b>
<b>Cash and cash equivalents, 1 January</b>	16	654	117
<b>Cash and cash equivalents, 31 December</b>		<b>617</b>	<b>654</b>

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Lasha Khakhutaishvili  
General Director

## **JSC “Insurance Company Tao”**

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)*

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### **1. Corporate information**

JSC Insurance Company Tao (hereign after the "Company") is a Joint Stock Company domiciled in, and registered under the laws of Georgia. The Company was founded on August 22, 2007 and provides different insurance products in Georgia. The Company’s legal address is Berbuki street N1, 3<sup>rd</sup> floor, commercial space N 12, Tbilisi, Georgia.

As of 31 December 2019 and 31 December 2018, the shareholder of the Company is JSC “Insurance Company Aldagi” – 100%, the sole owner of which is “A Group” and the ultimate holder is Georgia Capital PLC. (incorporated in the United Kingdom and its shares are listed on the London Stock Exchange) as of 31 December 2019 and 31 December 2018.

Governing body of the Company is supervisory board and the general assembly. Day to day activities of the Company are managed by general director of the Company. As of the years-end 2019 and 2018 general director of the company is Lasha Khakhutaishvili.

### **2. Basis of preparation**

#### **General information**

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB).

This is the first set of the Company’s annual financial statements in which IFRS 16 “Leases” have been applied. Changes to significant accounting policies are described in Note 3. “significant accounting policies”. The Company has applied the temporary exemption from IFRS 9 Financial Instruments and plans to have the initial application on 1 January 2022.

This financial information is presented in Georgian Lari ("GEL") rounded to nearest thousand, unless otherwise stated.

#### **Going Concern**

Management has prepared these financial statements on a going concern basis. In making this judgment management considered the Company’s financial position, current intentions, the profitability of operations and access to local and international financial resources, as necessary.

Insurance industry has faced challenges as a result of spread of the COVID 19 around the world and in Georgia. The Company has assessed the future perspectives (see note 32) in the current situation and, as a result, the Company's management believes that there is no doubt about the Company's ability to continue as a going concern for at least the following 12 months after reporting period.

### 3. Significant accounting policies

The following significant accounting policies used in the preparation of these financial statements consistently apply to all periods presented, unless otherwise stated.

#### Functional and presentation currency, foreign currency conversion

The functional currency of the Company is national currency of Georgia – Georgian Lari (GEL). Transactions in foreign currencies are initially recorded in the functional currency using the spot rate at the date of the transaction determined by National Bank of Georgia. Foreign currency monetary items at the reporting date are translated using the closing rate determined by National Bank of Georgia. All exchange differences arising on settlement are recognized in profit or loss.

The principal rate of exchange used for translating foreign currency monetary balances were as follows:

	31 December 2019	31 December 2018
1 USD/GEL	2.8677	2.6766
1 EUR/GEL	3.2095	3.0701

The average rate during the year was as follows:

	2019	2018
1 USD/GEL	2.8192	2.5345
1 EUR/GEL	3.1553	2.9913

#### Basis of measurement

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

#### Reporting period

The Company's reporting period covers one calendar year: January 1 to December 31.

#### Changes in accounting policy

The Company has adopted the new accounting pronouncements, which have become effective from 1 January 2019, and are as follows:

##### IFRS 16 - Leases

“IFRS 16 – Leases” replaces “IAS 17-Leases” along with three Interpretations (IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’).

The adoption of this new Standard has resulted in the Company recognizing a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)*

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### 3. Significant accounting policies (continued)

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 8%.

The Company has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

#### **Insurance contracts**

Insurance contracts are those contracts that carry significant insurance risk at the time of signing, or those contracts that contain, at the time of signing, a scenario of commercial content in which insurance risk can be significant. A significant amount of insurance risk depends on both the probability of the insured event occurring and the extent of its possible impact.

Once a contract falls under the category of insurance contracts, it remains an insurance contract for the remaining period, even if the insurance risk is substantially reduced during this time unless all rights or obligations are fulfilled or their term expires.

#### **Insurance and reinsurance receivables**

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the statement of profit or loss.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all ceded share of technical provisions when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)*

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### 3. Significant accounting policies (continued)

#### Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported (RBNS) or not (IBNR), together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. IBNR is calculated at the reporting date using past statistics.

The provision for unearned premiums (UPR) represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The liability is calculated at the reporting date using a range of standard claim projection techniques, based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognized. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

#### Liability adequacy test

The adequacy of the liability is tested to determine whether the expected claims exceeds unearned premium (minus deferred acquisition cost).

#### Deferred acquisition costs

Deferred acquisition costs (“DAC”) are capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognised as an expense when incurred. Acquisition costs deferred consist of commissions to sales agents and brokerage companies assisting in policy issuance.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and bank deposits that mature within three months from the date of origination and are free from contractual encumbrances.

#### Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets upon initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost using the effective interest method. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process. Regress and other receivables are recognised at their original invoiced value. Where the time value of money is material, receivables are carried at amortized cost.

### 3. Significant accounting policies (continued)

#### Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

#### Allowances for impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income.

#### Assets carried at amortized cost

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the statement of comprehensive income.

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a company of similar financial assets) is derecognized where:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Company has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

(In thousands of Georgian Lari)

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### 3. Significant accounting policies (continued)

The Company either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

#### **Leases**

##### *The Company as a lessee*

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Company assesses whether the contract meets key evaluations which are whether:

- a) the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- b) the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

##### *Measurement and recognition of leases as a lessee*

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)*

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### 3. Significant accounting policies (continued)

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets can be included in property, plant and equipment or presented separately and lease liabilities can be included in trade and other payables or presented as a separate liability.

#### **Income tax**

Income tax currently payable is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

Using the statement of financial position liability method, deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities in the statement of financial position and the corresponding tax base.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that the Company considers that it is probable (i.e. more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction. Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities, they relate to the same tax authority and the Company’s intention is to settle the amounts on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

#### **Provisions and contingent liabilities**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is more probable than not.

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

#### **Capital**

##### *Share capital*

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

##### *Dividends*

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

(In thousands of Georgian Lari)

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### 3. Significant accounting policies (continued)

#### Income and expense recognition

##### *Gross premiums and provision for unearned premiums*

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums

##### *Reinsurance premiums and provision for unearned premiums*

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

##### *Insurance claims*

Insurance claims include all claims occurring during the year, whether reported or not, claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries (subrogation), and any adjustments to claims outstanding from previous years.

#### **Impairment of non-financial assets**

At each reporting date assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment and the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss. Recoverable amount is higher of fair value less costs to sell and value in use.

#### **Joint Arrangements: Joint Operation**

A joint arrangement is an arrangement of which two or more parties have joint control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A joint operator shall recognise in relation to its interest in a joint operation: (a) its assets, including its share of any assets held jointly; (b) its liabilities, including its share of any liabilities incurred jointly; (c) its revenue from the sale of its share of the output arising from the joint operation; (d) its share of the revenue from the sale of the output by the joint operation; and (e) its expenses, including its share of any expenses incurred jointly.

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)*

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### **4. Significant accounting judgments, estimates and assumptions**

The Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **Liabilities arising from insurance contracts**

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

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. General insurance claims provisions are not discounted for the time value of money.

The ultimate cost of IBNR is estimated by using a range of standard actuarial claims projection techniques, such as Chain ladder method; the main assumption underlying this technique is that a company’s past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed monthly development of past year and expected loss ratios.

#### **Allowance for impairment of insurance receivables and reinsurance receivables**

The company regularly reviews its insurance receivables to assess impairment. For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment. The amount of allowance is reduced by an amount of debt that the company has adequate reasons to believe will be recovered. Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

#### **Taxes**

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

#### **Extension options for leases**

When the company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. Management believes that their estimation regarding extension is adequate.5. Standards and interpretations issued but not yet effective

## JSC “Insurance Company Tao”

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)*

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### 5. New standards and interpretations not yet adopted

#### IFRS 9 “Financial Instruments”

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The company has decided to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2022, applying the temporary exemption from applying IFRS 9 as introduced by the amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 (the “deferral approach”). At its meeting in November 2018, the IASB tentatively decided to extend the use of the deferral approach to IFRS 9 for a further year, so that the eligible entities would only be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022 at the latest. An entity may apply the temporary exemption from IFRS 9 if:

- (i) it has not previously applied any version of IFRS 9 before and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

#### IFRS 17 “Insurance Contracts”

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

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

**JSC “Insurance Company Tao”**

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)***6. Prior period reclassifications**

The Company also made certain reclassifications to the balances of the comparative figures for better presentation purposes, which do not represent an adjustment or correction of an error.

The tables below summarised the total effect of reclassifications to prior period balances.

<b>31 December 2018</b>	<b>Original Statements</b>	<b>Reclassification</b>	<b>As reclassified</b>
Insurance contracts liabilities	2,696	(22)	2,674
Other liabilities	534	22	556
Accounts receivable	40	(5)	35
Prepayments	156	5	161

For the year ended 31 December 2018, the statement of cash flow prepared by the Company reflected the movements of “cash and cash equivalents” and “amounts due from credit institutions” and therefore the balance of the statement of cash flow equaled to the sum of above mentioned accounts in the statement of financial position. For better presentation purposes, for the year ended 31 December 2019 the statement of cash flow prepared by the Company reflects the movements of “cash and cash equivalents” and therefore equals to the balance of the “cash and cash equivalents” presented in the statement of financial position. The same approach has been applied for the presentation of the comparative information – statement of cash flow for the year ended 31 December 2018. It does not represent an adjustment or correction of an error.

**JSC “Insurance Company Tao”**

Notes to the Financial Statements

For the year ended 31 December 2019

(In thousands of Georgian Lari)

**7. Net earned premiums**

Net earned premiums for the years ended December 31, 2019 and 2018 comprise:

<b>2019</b>	<b>Motor insurance (Casco)</b>	<b>CMTPL</b>	<b>MTPL</b>	<b>Other</b>	<b>Total</b>
Gross premiums written	4,136	2,261	199	26	6,622
Change in the gross provision for unearned premiums	(339)	(23)	39	6	(317)
<b>Gross earned premiums</b>	<b>3,797</b>	<b>2,238</b>	<b>238</b>	<b>32</b>	<b>6,305</b>
Less: written premiums ceded to reinsurers	-	-	-	-	-
Change in reinsurers' share in the gross provision for unearned premiums	(4)	-	-	-	(4)
<b>Net earned premiums</b>	<b>3,793</b>	<b>2,238</b>	<b>238</b>	<b>32</b>	<b>6,301</b>
<hr/>					
<b>2018</b>	<b>Motor insurance (Casco)</b>	<b>CMTPL</b>	<b>MTPL</b>	<b>Other</b>	<b>Total</b>
Gross premiums written	3,806	1,858	296	42	6,002
Change in the gross provision for unearned premiums	(1,804)	(126)	(125)	(18)	(2,073)
<b>Gross earned premiums</b>	<b>2,002</b>	<b>1,732</b>	<b>171</b>	<b>24</b>	<b>3,929</b>
Less: written premiums ceded to reinsurers	(10)	-	-	-	(10)
Change in reinsurers' share in the gross provision for unearned premiums	4	-	-	-	4
<b>Net earned premiums</b>	<b>1,996</b>	<b>1,732</b>	<b>171</b>	<b>24</b>	<b>3,923</b>

**JSC "Insurance Company Tao"**

Notes to the Financial Statements

For the year ended 31 December 2019

*(In thousands of Georgian Lari)***8. Gross benefits and claims paid**

Gross benefits and claims paid for the years ended December 31, 2019 and 2018 comprise:

	<b>2019</b>	<b>2018</b>
Motor Own Damage	1,966	646
Motor Third Party Liability	198	105
CMTPL	123	60
Motor Personal Accident	10	-
<b>Total gross benefits and claims paid</b>	<b>2,297</b>	<b>811</b>

**9. Change in outstanding claims**

Change in outstanding claims for the years ended December 31, 2019 and 2018 comprise:

<b>2019</b>	<b>Change in provisions for reported but not settled claims</b>	<b>Change in provisions for incurred but not reported claims</b>	<b>Change in outstanding claims</b>
Motor insurance(Casco)	(1,317)	(2)	(1,319)
CMTPL	13	-	13
MTPL	14	(4)	10
Other	-	-	-
<b>Total</b>	<b>(1,290)</b>	<b>(6)</b>	<b>(1,296)</b>

<b>2018</b>	<b>Change in provisions for reported but not settled claims</b>	<b>Change in provisions for incurred but not reported claims</b>	<b>Change in outstanding claims</b>
Motor insurance(Casco)	430	-	430
CMTPL	57	(1)	56
MTPL	31	-	31
Other	(42)	-	(42)
<b>Total</b>	<b>476</b>	<b>(1)</b>	<b>475</b>

**10. Subrogations and recoveries**

Subrogations and recoveries for the years ended December 31, 2019 and 2018 comprise:

	<b>2019</b>	<b>2018</b>
Income from regress	423	125
Income from the evaluation and sale of damaged assets	319	50
Impairment expense for subrogation receivables	(379)	(78)
<b>Total subrogations and recoveries</b>	<b>363</b>	<b>97</b>

### 11. Acquisition costs

Acquisition costs for the years ended December 31, 2019 and 2018 comprise:

	2019	2018
Insurance Commission expense	261	238
<b>Total acquisition costs</b>	<b>261</b>	<b>238</b>
Change in deferred acquisition costs	21	(64)
<b>Acquisition costs for the year</b>	<b>282</b>	<b>174</b>

### Analysis of movement in deferred acquisition costs

	2019	2018
Deferred acquisition costs at the beginning of the year	64	-
Change in deferred acquisition costs	(21)	64
<b>Deferred acquisition costs at the year end</b>	<b>43</b>	<b>64</b>

### 12. Net interest income

Net interest income for the years ended December 31, 2019 and 2018 comprise:

	2019	2018
Interest income from deposits	665	533
Interest income from loans issued	412	177
Interest income from current account	31	25
Interest income from promissory note	25	25
Interest expense	(1)	-
<b>Total interest income</b>	<b>1,132</b>	<b>760</b>

Interest expense represents the interest related to the lease liability and amounts to GEL 1 for the year ended December 31, 2019 (Nil for the year ended December 31, 2018).

### 13. General and administrative expenses

General and administrative expenses for years ended December 31, 2019 and 2018 comprise:

	2019	2018
Membership fee	275	204
Bonus expense	104	-
Salaries and other employee benefits	84	81
Supervisory fee	63	39
Audit fee	14	14
Rent expense	7	12
Depreciation and amortizations expense	4	-
Bank fees	2	3
Other general and administrative expenses	13	18
<b>Total general and administrative expenses</b>	<b>566</b>	<b>371</b>

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*(In thousands of Georgian Lari)***14. Net foreign exchange rate effect on foreign currency**

Net foreign exchange rate effect on foreign currency for the year ended December 31, 2019 and 2018 comprise:

	<b>2019</b>	<b>2018</b>
<b>Foreign exchange rate gain</b>	<b>276</b>	<b>295</b>
Insurance Receivable	276	295
<b>Foreign exchange rate loss</b>	<b>(178)</b>	<b>(189)</b>
Insurance Receivable	(178)	(189)
<b>Net foreign exchange rate effect on foreign currency</b>	<b>98</b>	<b>106</b>

**15. Income tax expense**

The Company's income tax expense comprises only current income tax expense for the years ended December 31, 2019 and 2018, amounting to GEL 555 and GEL 466, respectively.

The movement in deferred tax asset amounted to GEL 26 (in thousands) due to temporary changes. The company does not recognize the deferred income tax asset as it believes that this asset cannot be used until 2023. From January 1, 2023, the corporate income tax company will be transferred to a new model, which will no longer have the difference between the financial profit and the tax profit, therefore, the deferred tax will not be applicable.

**16. Cash and cash equivalents**

Cash and cash equivalents as of December 31, 2019 and 2018 are presented as cash in bank in the national currency and amounted to GEL 617 and GEL 654, respectively. Cash balance in bank accounts is classified as risk-free.

**17. Amounts due from credit institutions**

Amounts due from credit institutions as of December 31, 2019 and 2018 comprise:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Bank deposits in GEL	6,651	5,950
Interest receivable for deposits	736	399
<b>Total amounts due from credit institutions</b>	<b>7,387</b>	<b>6,349</b>

As of 31 December 2019 and 31 December 2018 amounts due from credit institutions are represented by short-term and long-term placements and earn annual interest of 9% to 11,5%. Information on interest income from deposits is presented in note 12.

**18. Insurance receivable**

Insurance receivable as of December 31, 2019 and 2018 comprise:

	<b>31 December, 2019</b>	<b>31 December, 2018</b>
Motor insurance(Casco)	3,144	2,791
CMTPL	208	141
Credit and life disability	61	57
Guarantees	8	7
Other	2	2
Allowance for insurance receivables	(828)	(778)
<b>Total insurance receivable</b>	<b>2,595</b>	<b>2,220</b>

Allowance for insurance receivable by insurance products comprise:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Motor insurance(Casco)	757	399
Credit and life disability	61	371
Guarantees	8	8
Other	2	-
<b>Total allowance for insurance receivables</b>	<b>828</b>	<b>778</b>

The analysis of the movement of the allowance for the insurance receivable is presented below:

	<b>Allowance</b>
<b>Balance as at 31 December 2017</b>	<b>748</b>
Accrual over a period	27
Recovery over a period	(22)
Revaluation effect	25
<b>Balance as at 31 December 2018</b>	<b>778</b>
Accrual over a period	21
Recovery over a period	(23)
Revaluation effect	52
<b>Balance as at 31 December 2019</b>	<b>828</b>

### 19. Accounts receivable

Accounts receivable as of December 31, 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Receivables from regression	465	87
Assets transferred through subrogation	42	33
Other receivables	-	6
Impairment reserve	(456)	(91)
<b>Total accounts receivable</b>	<b>51</b>	<b>35</b>

The analysis of the movement of the allowance for the accounts receivable is presented below:

	Receivables from regression	Other	Total
<b>Balance as at 31 December 2017</b>	-	62	62
Accrual over a period	77	-	77
Write off	-	(48)	(48)
<b>Balance as at 31 December 2018</b>	<b>77</b>	<b>14</b>	<b>91</b>
Accrual over a period	423	-	423
Recovery over a period	(44)	-	(44)
Write off	-	(14)	(14)
<b>Balance as at 31 December 2019</b>	<b>456</b>	-	<b>456</b>

### 20. Loans issued

Loans issued as of 31 December, 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Loans issued	5,030	3,327
Interest receivable for loans issued	221	11
<b>Total loan issued</b>	<b>5,251</b>	<b>3,338</b>

As of 31 December 2019 the company has issued loans to the related parties which equals to 5,030 GEL (3,000 GEL as of 31 December 2018). The annual interest rate is 12% and the maturity dates are in June and December 2020. Information regarding transactions with the related parties is given in the note 31. Information on interest income is presented in note 12.

### 21. Other financial assets

Other financial assets as of December 31, 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Promissory note	200	200
Interest receivable for promissory note	7	-
<b>Total other financial assets</b>	<b>207</b>	<b>200</b>

As of 31 Decemer 2019 finance assets are presented by one-year promissory note from the microfinance organization, with annual interest of 13% and the maturity date is 28th September, 2020. As of 31 December 2018 finance assets are presented by one-year promissory note from the microfinance organization, earn annual interest of 13% and the maturity date is 13 September, 2019. The promissory note holder cannot withdraw funds during the promissory note term.

## 22. Prepayments

Prepayments as of December 31, 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Membership fee prepayment	97	112
Prepayments related to subrogated assets	65	5
Prepaid salary	13	20
Other prepayments	25	24
<b>Total prepayments</b>	<b>200</b>	<b>161</b>

## 23. Right-of-use asset

Right-of-use asset as of December 31, 2019 and 2018 are as follows:

	Office space	Total
<b>Book value</b>		
<b>1 January 2019</b>	-	-
IFRS 16 implementation effect	52	52
<b>31 December 2019</b>	<b>52</b>	<b>52</b>
<b>Accumulated depreciation</b>		
<b>1 January 2019</b>	-	-
Depreciation charge	(4)	(4)
<b>31 December 2019</b>	<b>(4)</b>	<b>(4)</b>
<b>Net book value</b>		
<b>31 December 2018</b>	-	-
<b>31 December 2019</b>	<b>48</b>	<b>48</b>

In accordance with IFRS 16, the Company recognized a right-of-use asset. The Company rents the office space. As of December 31, 2019, the remaining term of the lease agreement is 8 months (initial recognition date is 17 August, 2019); The contract includes both the right to extend and terminate the lease. Management estimates that the lease of the office space will be extended for an additional 4 years. The lease agreement stipulates fixed payments amounting to GEL 12 per annum (in thousands).

#### 24. Other liabilities

Other liabilities as of December 31, 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
<b>Other financial liabilities</b>	<b>382</b>	<b>232</b>
Acquisition cost payable	150	116
Trade payables	122	94
Claims payable	110	22
<b>Tax liabilities</b>	<b>417</b>	<b>324</b>
Current income tax liabilities	346	277
Income tax liabilities	71	47
<b>Total other liabilities</b>	<b>799</b>	<b>556</b>

#### 25. Insurance contracts liabilities

Insurance contracts liabilities as of December 31, 2019 and 2018 are as follows

	31 December 2019			31 December 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Unearned premium reserve	2,459	-	2,459	2,145	(4)	2,141
Reported but not settled claims	1,820	-	1,820	530	-	530
Incurred but not reported claims	9	-	9	3	-	3
<b>Total insurance contract liabilities</b>	<b>4,288</b>	<b>-</b>	<b>4,288</b>	<b>2,678</b>	<b>(4)</b>	<b>2,674</b>

#### 26. Lease liability

Lease liability as of December 31, 2019 and 2018 is as follows:

	31 December 2019	31 December 2018
Short term lease liability	14	-
Long term lease liability	39	-
<b>Total lease liabilities</b>	<b>53</b>	<b>-</b>

	31 December 2019	31 December 2018
<b>Initial recognition</b>	<b>52</b>	<b>-</b>
Interest income/expense	1	-
payments during the year	-	-
<b>Balance for the period end</b>	<b>53</b>	<b>-</b>

31 December 2019	within 1 year	1-3 Year	3-5 Year
Lease payment	17	24	20
Finance charge	(3)	(4)	(1)
<b>Net present value</b>	<b>14</b>	<b>20</b>	<b>19</b>

At the date of the initial recognition, the lease liability and the right-to-use asset are presented by the same amount, as the company measures the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition (in this particular case no prepaid lease payments exist).

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### 27. Capital

The capital consists of 2,500 ordinary shares. The nominal value of 1 share is GEL 1 (one) (not in thousands). As of 31 December 2019 and 31 December 2018, the shareholder of the Company is JSC “Insurance Company Aldagi” – 100%.

Retained earnings represent the portion of net profit that is undistributed. In June 2019, the Company announced the paid dividends of GEL1,500, no dividends were announced during 2018.

### 28. Financial risk management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Financial risk comprises **market risk** (including **currency risk**, **interest rate risk** and other price risk), **credit risk** and **liquidity risk**. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

#### Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

	Note	31 December 2019	31 December 2018
Amounts due from credit institutions	17	7,387	6,349
Loans issued	20	5,251	3,338
Insurance receivable	18	2,595	2,220
Cash and cash equivalents	16	617	654
Other financial assets	21	207	200
Accounts receivable	19	51	35
<b>Total credit risk exposure</b>		<b>16,108</b>	<b>12,796</b>

Credit risk is related to the impairment of the above mentioned financial assets.

**Market risk** - Derives from (a) interest rate risk (b) currency risk, which is affected by general and specific changes in the market.

*Interest rate risk* - changes in floating interest rates might adversely impact Company's financial position and cash flow, although the Company's financial instruments are at fixed rates, thus the interest rate risk does not currently affect the Company.

*Currency risk* - The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flow. The Company's assets, namely, insurance receivables, are denominated in several foreign currencies, and liabilities are translated and fixed in the functional currency at the rate specified by the National Bank of Georgia at the date of the operation.

**JSC “Insurance Company Tao”**

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*(In thousands of Georgian Lari)***28. Financial risk management (continued)****Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its obligations. The Company’s policy is to run a prudent liquidity management policy by means of holding sufficient cash and bank balances, as well as highly liquid assets for making all operational and debt service related to payments when those become due. The maturity analysis of financial liabilities as at 31 December 2019 and 31 December 2018 are as follows

<b>31 December 2019</b>	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>				
Amounts due from credit institutions	4,551	2,836	-	<b>7,387</b>
Loans issued	5,251	-	-	<b>5,251</b>
Insurance receivable	2,595	-	-	<b>2,595</b>
Cash and cash equivalents	617	-	-	<b>617</b>
Other financial assets	207	-	-	<b>207</b>
Accounts receivable	51	-	-	<b>51</b>
<b>Total financial assets</b>	<b>13,272</b>	<b>2,836</b>	-	<b>16,108</b>
<b>Financial liabilities</b>				
Insurance contracts liabilities	4,288	-	-	<b>4,288</b>
Other liabilities	382	-	-	<b>382</b>
Lease liability	14	39	-	<b>53</b>
Reinsurance payable	-	-	-	-
<b>Total financial liabilities</b>	<b>4,684</b>	<b>39</b>	-	<b>4,723</b>
<b>Net liquidity position</b>	<b>8,588</b>	<b>2,797</b>	-	<b>11,385</b>

<b>31 December 2018</b>	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>				
Amounts due from credit institutions	6,349	-	-	<b>6,349</b>
Insurance receivable	2,220	-	-	<b>2,220</b>
Cash and cash equivalents	654	-	-	<b>654</b>
Other financial assets	200	-	-	<b>200</b>
Accounts receivable	35	-	-	<b>35</b>
Loans issued	-	3,338	-	<b>3,338</b>
<b>Total financial assets</b>	<b>9,458</b>	<b>3,338</b>	-	<b>12,796</b>
<b>Financial liabilities</b>				
Insurance contracts liabilities	2,674	-	-	<b>2,674</b>
Other liabilities	232	-	-	<b>232</b>
Reinsurance payable	9	-	-	<b>9</b>
<b>Total financial liabilities</b>	<b>2,915</b>	-	-	<b>2,915</b>
<b>Net liquidity position</b>	<b>6,543</b>	<b>3,338</b>	-	<b>9,881</b>

The Company believes that it will pay all liabilities within the contractual period. To do this, the company expects sufficient cash flows from operating activities.

## JSC “Insurance Company Tao”

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(In thousands of Georgian Lari)

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### 29. Capital risk management

#### Capital management objectives, policy and approaches

The main purpose of capital management is to continuously monitor and ensure appropriate levels of capital appropriate to the risks faced by the company. Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- Compliance with the requirements of the State Insurance Supervision Service of Georgia (hereinafter "Supervision Service");
- Ensuring the composition and structure of assets received to cover overdue insurance liabilities and exceeding regulatory requirements; and
- Ensuring the required level of company stability to ensure the quality of the policyholder safety.

The Company's interest is to provide adequate capital resources at any time and to comply with the requirements of relevant nominal regulatory capital. The company has traditionally been a very good source of capital. Maintaining this good capital base is also important for the future goals of the company to increase profitability and to mitigate the effects of major loss events. Part of capital monitoring and management is the company's investment and risk management strategy, which focuses on maintaining a minimum level of funds held by leading Georgian banks. Asset structure controls are also carried out by monthly reports prepared and sent to the founders, containing relevant calculations audited by the Company's financial director.

#### Regulatory requirements:

- The insurance sector in Georgia is regulated by the Insurance State Supervision Service of Georgia (“ISSSG”). The ISSSG imposes minimum capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins.
- According to the ISSSG directive №27, issued on 25 December 2017, the minimum capital from 31 December 2018 throughout the period should be not less than GEL 4,200 (in thousands) and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances.
- The company makes certain adjustments to the IFRS equity in these statements of financial position in order to arrive to the ISSSG prescribed capital.
- The Company manages its capital requirements by preventing shortfalls between reported and required capital levels on a regular basis. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or inject further capital.

The Company was in compliance with the externally imposed capital requirements at the end of the reporting period and no changes were made to its objectives, policies and processes from the previous year for managing capital.

The Regulatory Capital should be at least either RSM or GEL 2,200 (in thousands) throughout the period from 1 January 2018 to 31 December 2018;

The Regulatory Capital should be at least either RSM or GEL 4,200 (in thousands) throughout the period from 31 January 2018. The regulatory capital should not be less than GEL 7,200 throughout the period from 31 December, 2020.

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

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Notes to the Financial Statements

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(In thousands of Georgian Lari)

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### 30. Contingent liabilities and unforeseen circumstances

#### Tax legislation

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. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. 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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

### 31. Related party balances and transactions

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

- (a) Associates – enterprises on which the Company has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (b) Joint ventures in which the Company is a venture;
- (c) Members of key management personnel of the Company or its parent;
- (d) Close members of the family of any individuals referred to in (a) or (d);
- (e) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (f) Post-employment benefit plans for the benefit of employees of the Company, or of any entity that is a related party of the Company.

As of December 31, 2018 and 2019, no balances with related parties and transactions with related parties are presented below:

Balances with related parties	Relationship	31 December 2019	31 December 2018
Loans issued	Entities under common control	5,251	3,327
Insurance contracts liabilities	Entities under common control	444	477
Insurance receivable	Entities under common control	282	297
<b>Total</b>		<b>5,977</b>	<b>4,101</b>

**31. Related party balances and transactions (continued)**

<b>Transactions with related parties</b>	<b>Relationship</b>	<b>2019</b>	<b>2018</b>
Gross benefits and claims paid	Entities under common control	607	254
Change in outstanding claims		36	149
<b>Net claims</b>	<b>Entities under common control</b>	<b>643</b>	<b>403</b>
Net premiums	Entities under common control	461	662
Change in UPR		69	(328)
<b>Net earned premiums</b>	<b>Entities under common control</b>	<b>530</b>	<b>334</b>
<b>Net interest income</b>	<b>Entities under common control</b>	<b>405</b>	<b>170</b>
<b>General and administrative expenses</b>	<b>Entities under common control</b>	<b>12</b>	<b>12</b>
<b>Key management personnel</b>		<b>2019</b>	<b>2018</b>
Salaries and other employee benefits		112	8
<b>Total</b>		<b>112</b>	<b>8</b>

**32. Events after reporting period**

These financial statements were approved for issuance by the Company's management on April 8, 2020.

The following non-adjusting events took place after the reporting period:

- On February 28 2020, the company issued a dividend of GEL 2,100.
- During 2020, new coronavirus so-called COVID-19 has spread across the world, which was officially categorized as a pandemic by the World Health Organization (WHO) on March 11, 2020. Due to this circumstance, one-month the state of emergency was declared in Georgia on March 21, 2020. As a result of the situation, the insurance industry has faced challenges. The company believes it has all the resources needed to continue as a going concern. However, it is too early to make a precise prediction of how the crisis will affect its performance. It is also uncertain how long it will take to get out of the crisis; such a global integrated crisis is the first in the history of Georgian business and no corporate experience exists. The Company participates in the actions being taken against COVID-19, which is reflected in the following activities: remote work and flexible working hours are offered to employees.

As a result, management estimates that the portfolio of both the corporate sector and the border TPL will be partially reduced compared to 2019. Despite the above-mentioned negative factors, the management believes that there is no doubt about the Company's ability to continue as a going concern, as stated in note 2.

There were no additional significant events after the reporting date that need to be presented in the financial statements.