JSC INSURANCE COMPANY CARTU

Financial Statements

Independent Auditor's Report

Year ended 31 December 2020

Contents:

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and Management of JSC INSURANCE COMPANY CARTU

Opinion

We have audited the financial statements of **JSC INSURANCE COMPANY CARTU**, (hereinafter - the Company) which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

The 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, the 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 the 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 the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is

Ivane Zhuzhunashvili (SARAS-A-720718)

For and on behalf of BDO LLC

Tbilisi, Georgia

15 April 2021

JSC INSURANCE COMPANY CARTU

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(In GEL)

	Notes	2020	2019*
Gross written premiums on insurance contracts		7,973,365	9,239,639
Reinsurer's share of gross written premium on insurance contracts		(3,985,284)	(4,245,780)
Net written premium		**3,988,081**	**4,993,859**
Changes in provision for unearned premiums		(539,460)	(834,718)
Changes in the re-insurers portion in provision for unearned premiums		554,106	868,770
Net insurance revenue	**6**	**4,002,727**	**5,027,911**
Commission income	7	229,220	237,480
Total insurance revenue		**4,231,947**	**5,265,391**
Insurance claims and changes in the insurance loss reserves	8	(1,189,444)	(1,548,998)
Reinsurer's share in insurance claims and changes in insurance loss reserves	8	12,683	8,783
Net insurance claims		**(1,176,761)**	**(1,540,215)**
General and administration expenses	9	(1,834,292)	(1,733,585)
Impairment expenses	10	(49,149)	(93,824)
Financial income, net		698,936	448,552
Exchange rate difference gain, net		26,137	39,697
Profit before tax		**1,896,818**	**2,386,016**
Income tax benefit/(expense)	11	(249,316)	332,218
Profit for the year		**1,647,502**	**2,718,234**

(*) – Reporting period for the year ended 31 December 2019 is restated. For details refer to Note 5.

These financial statements were approved by the Management on 15 April 2021 and were signed on its behalf by:

General director ______________________ G. Mikaberidze

Head of financial department ______________________ G. Lebanidze

Notes on pages 9-36 are the integral part of these financial statements.

JSC INSURANCE COMPANY CARTU

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STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(In GEL)

	Note	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents	12	1,341,899	944,287
Bank deposits	13	8,991,052	7,153,004
Other assets	14	143,442	142,717
Insurance and reinsurance receivables	15	3,626,393	3,908,028
Reinsurance assets	16	3,500,064	2,957,924
Deferred tax asset	11	82,902	332,218
Right of use assets	17	444,204	592,271
Property, equipment and intangible assets	18	132,764	150,166
Total assets		**18,262,720**	**16,180,615**
Capital and liabilities			
Capital			
Share capital	19	9,620,300	9,620,300
Accumulated losses		(250,124)	(1,897,626)
Total capital		**9,370,176**	**7,722,674**
Liabilities			
Other liabilities		15,715	14,322
Other insurance liabilities	20	3,605,854	3,412,833
Insurance contract liability	16	4,681,763	4,302,205
Deffered commission income	21	85,989	92,646
Lease liabilities	17	503,223	635,935
Total liabilities		**8,892,544**	**8,457,941**
Total capital and liabilities		**18,262,720**	**16,180,615**

Notes on pages 9-36 are the integral part of these financial statements.

JSC INSURANCE COMPANY CARTU

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2020

(In GEL)

	Share capital	Accumulated loss	Total
31.12.2018	**9,620,300**	**(4,615,860)**	**5,004,440**
Profit for the year	-	2,718,234	**2,718,234**
31.12.2019	**9,620,300**	**(1,897,626)**	**7,722,674**
Profit for the year	-	1,647,502	**1,647,502**
31.12.2020	**9,620,300**	**(250,124)**	**9,370,176**

Notes on pages 9-36 are the integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(In GEL)

	Note	2020	2019
Cash flows from operating activities			
Profit before tax		**1,896,818**	**2,386,016**
Adjustments for:			
Depreciation and amortization		188,862	192,012
Changes in unearned premium reserves		539,460	834,718
Change of reinsurer's share in unearned premium reserves		(554,106)	(868,770)
Changes in insurance claims reserves		(159,902)	(180,780)
Changes in insurance claims reserves reinsurer's share		11,966	18,859
Loss from disposal of fixed assets		5,484	1,869
Loss from sale of salvages		-	58,608
Changes in deferred commission income		(6,657)	24,471
Receivables impairment charge		49,149	93,824
Financial income, Net		(698,936)	(448,552)
Exchange rate difference gain, net		(26,137)	(39,697)
Cash flows from operating activities before changes in working capital		**1,246,001**	**2,072,578**
(Increase)/decrease in insurance and reinsurance receivables		683,767	(1,008,905)
Increase/(decrease) in other insurance liabilities		(221,671)	811,044
(Increase)/decrease in other assets		3,678	(21,758)
Increase/(decrease) in other liabilities		1,393	(118,221)
Cash generated from operations		**1,713,168**	**1,734,738**
Increase in bank deposits		(1,845,245)	(1,614,671)
Interest received from deposits		762,180	470,465
Net Cash flows from operating activities		**630,103**	**590,532**
Cash flows from investing activities			
Purchase of fixed and intangible assets		(28,877)	(107,836)
Net cash used in investing activities		**(28,877)**	**(107,836)**
Cash flows from financing activities			
Principal paid on lease liability		(132,712)	(104,403)
Interest paid on lease liability		(56,047)	(68,627)
Cash used in financing activities		**(188,759)**	**(173,030)**
Net increase in cash and cash equivalents		**412,467**	**309,666**
Cash and cash equivalents at the beginning of year	12	**944,287**	**640,463**
Effect of changes in foreign exchange rate on cash and cash equivalents		(14,855)	(5,842)
Cash and cash equivalents at the end of year	12	**1,341,899**	**944,287**

Notes on pages 9-36 are the integral part of these financial Statements.

1. General information

JSC Insurance Company Cartu (later – the Company) with ID 204970031 was registered in 2001, in accordance with Georgian law on “Entrepreneurs”. The Company is headquartered in Tbilisi, Chavchavadze avenue N. 39a.

The Company owns 2 types of licenses for life and non-life insurance, issued by the National Insurance State Supervision Service of Georgia.

JSC Insurance Company Cartu was founded in accordance with Georgian law.

As at 31st of December 2020 and 2019, the Company has one subsidiary – LLC “Reestri XXI”, identification number N. 204975438, which was registered in 2001. The Company owns 100% of statutory capital of LLC “Reestri XXI”. From the day of its foundation the subsidiary is not operating and has not made any operations.

Financial statements presented as at 31 December 2020 and 2019, only include financial statements of JSC Insurance Company Cartu.

Management of the Company believes that the consolidated financial statements of the Group (JSC Insurance Company Cartu and its subsidiary) for the year 2020, is not different from the individual financial statements of JSC Insurance Company Cartu, therefore financial statements are not presented as consolidated or individual financial statements.

Shareholders of the Company are presented as follows:

	31.12.2020	**31.12.2019**
JSC “Cartu Bank”	91.39%	91.39%
“Cartu” the International Charitable Foundation	8.61%	-
Ringold finance limited LLC	-	8.61%

The Company’s ultimate shareholder (with 100% of the shares in JSC Bank Cartu) is Uta Ivanishvili.

2. Basis of preparation

2.1 Basis of measurement

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

The Company presents these financial statements in GEL. The financial statements have been prepared under the historical cost bases. The reporting period for the Company is the calendar year from January 1 to December 31. Financial information presented in GEL has not been rounded, except when otherwise indicated.

The preparation of financial statements in compliance with IFRS requires from the Management the use of certain critical accounting estimates, that effects on the carrying amounts of assets and liabilities as at the reporting period, as well as income and expenses recognized during the accounting period. Actual results may be different from currently made estimates. Adjustments that result changes in accounting estimates are recognized in the accounting period that they relate to. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

Principal accounting policies applied in the preparation of these financial Statements are disclosed in Note 25.

2.2 Going Concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future.

In determining the appropriateness of the assumption, the Company's Management has taken into account the impact of the COVID-19 pandemic on the Company's financial condition as at 31 December 2020 and on its future operations. While pandemic-induced restrictions, regulations and responses have an impact on the Company's performance and cash flows, the negative impact caused by a pandemic does not have an impact on the going concern of the Company's operations. The Management of the Company believes that the Company has sufficient resources to continue operating activities for 12 months after the financial statements.

2. Basis of preparation (Continued)

Also, the Company's Management is not aware of any material uncertainties that would significantly impact the Company's ability to continue operating as a going concern in the foreseeable future.

2.3 Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2020

There are number of new standards and interpretations adopted by IASB, neither of which have material effect on the Company’s financial statements for the year ended 31 December 2020:

- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR ‘phase 2’ (Amendments to IFRS 9, IAS 39 and IFRS 7); and
- COVID-19-Related Rent Concessions (Amendments to IFRS 16)
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and
- Revisions to the Conceptual Framework for Financial Reporting.

b) New standards, interpretations and amendments not yet effective

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

The following amendments are effective for the period beginning 1 January 2022:

- Onerous *Contracts – Cost of Fulfilling a Contract* (Amendments to IAS 37);
- Property*, Plant and Equipment: Proceeds before Intended Use (*Amendments to IAS 16);
- Annual *Improvements to IFRS Standards 2018-2020* (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41);
- References *to Conceptual Framework* (Amendments to IFRS 3); and
- *IFRS 17 Insurance contracts (For detailed information please, see below).*

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

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

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

An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. The application of both approaches is optional, and an entity is permitted to stop applying them before the new insurance contracts standard is applied. Under the amendments that make up the deferral approach, an entity applies IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1st January 2023. At the end of 2020, the Company met the criteria for an approach of the provisional exemption from the use of IFRS 9 - the total carrying amount of liabilities arising from IFRS 4 contracts was not less than 90% of the total carrying amount of all its liabilities.

2. Basis of preparation (Continued)

Liabilities related to insurance were presented as follows:

	31.12.2020	31.12.2019
Liabilities related to insurance within the scope of IFRS 4		
Insurance contract liabilities	4,681,763	4,302,205
	4,681,763	**4,302,205**
Liabilities related that are not within the scope of IFRS 4		
Other insurance liabilities	3,605,854	3,412,833
Deferred commission income	85,989	92,646
	3,691,843	**3,505,479**
Total carrying amount of insurance-related liabilities	**8,373,606**	**7,807,684**
Total liabilities	**8,892,544**	**8,457,941**
The share of insurance-related liabilities in the carrying amount of total liabilities	**94%**	**92%**

If the Company had applied IFRS 9 instead of deferral approach, its effect on profit and loss for the reporting period ending in the year 2020 would have been - an increase in impairment expense by GEL49,278 (2019: GEL34,032).

Other

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

3. Critical accounting estimates and judgements

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

Basic estimates and assumptions

a) Claims arising under the insurance contracts

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

For insurance contracts, estimates must be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period before the ultimate claims cost can be specified. For some type of policies, IBNR claims form most of the statement of financial position insurance liability. Claims arising under the insurance contracts are not discounted. For a methodology of estimating claims arising under the insurance contracts see Note 25.

b) Impairment of insurance and reinsurance receivables

The Company assesses insurance and reinsurance receivables for impairment. The primary factors that the Company considers whether a financial asset is impaired is its overdue status and deterioration of debtor's credit rating. In the case of existing of indicators for impairment, the Management estimates the future cash flows of the receivables portfolio and, if necessary, the future cash flows of the individual receivable.

c) Taxation

In the ordinary course of business, there are operations for which there are some uncertainties regarding matters of taxation. As a result, the Company assesses whether it has a liability to pay additional taxes, and based on them, recognizes tax provisions.

These tax provisions are recognized when the Company considers its tax declarations to be reliable, but it considers that certain interpretations from the tax authorities may differ. As a result, the Company minimizes this risk.

3. Critical accounting estimates and judgements (Continued)

d) Legal proceedings

The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. In assessing the provisions, the Company takes into account the progress of the case, the legal requirements, potential level of damages, the opinions or views of legal advisers, experience on similar case practices.

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

4. Risk management

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

Capital management objectives, policies and approach

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

The capital management objectives are:

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

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise. The Company's capital management policy is to hold sufficient liquid assets to cover statutory requirements based on the Regulatory Authorities.

Regulatory requirements

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

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

The company makes certain adjustments to the IFRS equity in 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.

4. Risk management (Continued)

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

- The Regulatory Capital should be at least either RSM or GEL 4,200 throughout the period from 1 January 2019 to 31 December 2021;
- The Regulatory Capital should be at least either RSM or GEL 7,200 throughout the period from 31 December 2021.

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 2020 and 2019, the Company was in compliance with the level of Regulatory Capital in excess of RSM.

Insurance risk management

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. Within the underwriting, portfolio sensitivity analysis is performed, which is significantly influenced by the policy loss ratio. Taking this into account, the Company sets out underwriting directives and restrictions, which determine who can take what risk and with what restrictions. These restrictions are constantly monitored.

The Company primarily uses the "loss ratio" to monitor its insurance risk. The loss ratio is defined as net insurance claims divided by net insurance revenue.

The Company's loss ratios are as follows:

	2020	2019
Loss Ratio	29%	31%

The Company insurance covers medical, life, property, cargo, land and air vehicles, accident, travel, liability, third party liability insurance. This type of insurance is mainly for 12 months.

For general insurance contracts the most significant risks arise from climate changes and natural disasters. For healthcare contracts the most significant risks arise from lifestyle changes, epidemic and so on. These risks vary significantly in relation to the location, type and industry of the risk insured. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

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

Management believes that, due to the short-tailed nature of the Company's business, the performance of the Company's portfolio is sensitive mainly to changes in expected loss ratios. The Company adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

4. Risk management (Continued)

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts with similar risk features. The risk is managed through the use of reinsurance. Concentration of risk is provided by subclassification of unearned premium reserve by the types of insurance. For details refer to Note 6.

Sources of uncertainty in the estimation of future claim payments

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

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claim's exposures. However, given the uncertainty in establishing claims reserve, it is likely that the outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR.

The estimation of IBNR is generally subject to more uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

The Management makes actuarial calculations to assess the adequacy of liabilities. For claims, excluding reinsurance, subrogation and compensation, statistical analysis is performed to determine whether the liability incurred is sufficient (excluding relevant assets) for future losses (according to their current best estimates). If the liabilities are insufficient, they are increased through profit or loss.

Deficits are recognized in profit or loss for the year. No shortfalls were identified between 2020 and 2019 and therefore no additional inexhaustible risk reserve was required.

Financial Risk

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

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

Principal financial instruments

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

	31.12.2020	**31.12.2019**
Cash and cash equivalents	1,341,899	944,287
Bank deposits	8,991,052	7,153,004
Other assets	9,079	18,817
Insurance and reinsurance receivables	3,626,393	3,908,028
Reinsurance assets (except Unearned premium reserve)	26,766	38,732
Total financial assets	**13,995,189**	**12,062,868**
Other liabilities	5,378	4,186
Other insurance liabilities	3,605,854	3,412,833
Insurance contract liability (except unearned premium reserve)	369,274	529,176
Lease liability	503,223	635,935
Total financial liabilities	**4,483,729**	**4,582,130**

4. Risk management (Continued)

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

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

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

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

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

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer (insurer, reinsurer) or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers. In general, the Company's credit risk is related to the sale of the insurance product for customers in the Georgian market (deferred payment) and depends on the solvency of each customer.

According to the internal risk assessment policy, the Company evaluates each new insurer before concluding a contract with him and offering terms. An indicator of a client's creditworthiness is its assessment / characterization by a third party (if available), and in some cases, its banking history. Limits are set individually for each customer.

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

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance is collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on ageing analysis and overdue status for customers.

Reinsurance

Despite the Company has a reinsurance practice, it is not exempt from direct obligations to policyholders and thus there is credit risk in the event of a transfer if any reinsurer fails to meet its obligations under such reinsurance agreements. The Company is not dependent on any reinsurer and the Company's operations are not substantially dependent on any reinsurance contract.

The Company assesses the financial condition of its reinsurers and monitors the concentration of credit risks in similar geographical areas, activities, or economic characteristics of the insurers to minimize the potential loss caused by the reinsurers' default.

The Company manages its credit risk by ageing analysis of insurance and reinsurance receivables.

4. Risk management (Continued)

The aging of insurance and reinsurance receivables is as follows:

31.12.2020	Not past due	Past due 0-3 months	Past due 3 - 6 months	Past due 6 - 9 months	Past due 9 - 12 months	Past due more than 1 year	Total
Probability of losses	*0%*	*1%*	*10%*	*30%*	*50%*	*100%*	
Carrying amount	3,298,759	282,343	33,592	15,233	14,437	348,805	**3,993,169**
Provision for impairment	-	(2,823)	(3,359)	(4,570)	(7,219)	(348,805)	**(366,776)**
Net financial receivables	**3,298,759**	**279,520**	**30,233**	**10,663**	**7,218**	**-**	**3,626,393**

31.12.2019	Not past due	Past due 0-3 months	Past due 3 - 6 months	Past due 6 - 9 months	Past due 9 - 12 months	Past due more than 1 year	Total
Probability of losses	*0%*	*1%*	*10%*	*30%*	*50%*	*100%*	
Carrying amount	3,403,115	374,649	132,524	17,125	5,502	288,296	**4,221,211**
Provision for impairment	-	(3,746)	(13,252)	(5,138)	(2,751)	(288,296)	**(313,183)**
Net financial receivables	**3,403,115**	**370,903**	**119,272**	**11,987**	**2,751**	**-**	**3,908,028**

According to the Management’s estimation financial assets other than insurance and reinsurance receivables represent the category of “Not past due and not impaired”.

Liquidity Risk

Liquidity risk arises in connection with the management of its working capital and main liabilities by the Company. Liquidity risk refers to the availability of sufficient funds to meet repayments and other financial commitments associated with financial instruments as they fall due. The Management controls these types of risks by means of maturity analysis, determining the Company’s strategy for the next financial period.

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

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

31.12.2020	Up to 1 year	From 1 year to 5 years	Total
Financial liabilities			
Insurance contract liability (except Unearned premium reserve)	369,274	-	**369,274**
Other liabilities	5,378	-	**5,378**
Other insurance liabilities	3,605,854	-	**3,605,854**
Lease liability	188,760	377,520	**566,280**
	4,169,266	**377,520**	**4,546,786**

31.12.2019	Up to 1 year	From 1 year to 5 years	Total
Financial liabilities			
Other liabilities	4,186	-	**4,186**
Other insurance liabilities	3,412,833	-	**3,412,833**
Insurance contract liability (except Unearned premium reserve)	529,176	-	**529,176**
Lease liability	204,490	566,280	**770,770**
	4,150,685	**566,280**	**4,716,965**

4. Risk management (Continued)

Market Risk

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

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

- **Interest Rate Risk**

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

- **Currency risk**

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

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

31.12.2020	**GEL**	**USD**	**EUR**	**Total**
Financial assets				
Cash and cash equivalents	1,340,280	1,579	40	**1,341,899**
Bank deposits	8,991,052	-	-	**8,991,052**
Other assets	9,079	-	-	**9,079**
Insurance and reinsurance receivables	637,580	2,843,841	144,972	**3,626,393**
Reinsurance assets (except Unearned premium reserve)	26,766	-	-	**26,766**
	11,004,757	**2,845,420**	**145,012**	**13,995,189**
Financial liabilities				
Other liabilities	5,378	-	-	**5,378**
Other insurance liabilities	-	3,150,664	455,190	**3,605,854**
Insurance contract liability (except Unearned premium reserve)	369,274	-	-	**369,274**
Lease liability	503,223	-	-	**503,223**
	877,875	**3,150,664**	**455,190**	**4,483,729**
Open balance sheet position	**10,126,882**	**(305,244)**	**(310,178)**	

31.12.2019	**GEL**	**USD**	**EUR**	**Total**
Financial assets				
Cash and cash equivalents	936,498	560	7,229	**944,287**
Bank deposits	7,153,004	-	-	**7,153,004**
Other assets	18,817	-	-	**18,817**
Insurance and reinsurance receivables	565,721	3,182,337	159,970	**3,908,028**
Reinsurance assets (except Unearned premium reserve)	38,732	-	-	**38,732**
	8,712,772	**3,182,897**	**167,199**	**12,062,868**
Financial liabilities				
Other liabilities	4,186	-	-	**4,186**
Other insurance liabilities	-	2,878,631	534,202	**3,412,833**
Insurance contract liability (except Unearned premium reserve)	529,176	-	-	**529,176**
Lease liability	635,935	-	-	**635,935**
	1,169,297	**2,878,631**	**534,202**	**4,582,130**
Open balance sheet position	**7,543,475**	**304,266**	**(367,003)**	

4. Risk management (Continued)

Currency risk sensitivity

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

Impact on net profit and equity based on asset values are as follows:

	USD		EUR	
2020	**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**
Profit/Loss	(61,049)	61,049	(62,036)	62,036

	USD		EUR	
2019	**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**
Profit/Loss	60,853	(60,853)	(73,401)	73,401

5. Prior period reclassifications

The Management of the Company has made some changes in the financial statements for the year ended 31 December 2019. Specifically, the Management has made the following changes:

- "Other expenses" and "General and administrative expenses" were combined and presented as "General and administrative expenses";

- "Insurance claims and loss adjustment expenses", "Changes in IBNR" and "Changes in RBNS" were combined and presented as "Insurance claims claims reimbursement costs"; and

- "Reinsurer's share in insurance claims" and "Re changes in Reserves" were combined as "Reinsurer's share in insurance claims and changes in insurance loss reserves ".

The impact of previous period reclassification on the statement of comprehensive income is presented as follows:

Statement of comprehensive income	**As previously presented**	**Prior period reclassifications**	**As restated**
General and administration expenses	(1,275,357)	(458,228)	(1,733,585)
Other expenses	(458,228)	458,228	-
Insurance claims and loss adjustment expenses	(1,729,778)	1,729,778	-
Changes in IBNR	42,554	(42,554)	-
Changes in RBNS	138,226	(138,226)	-
Insurance claims and changes in the insurance loss reserves	-	(1,548,998)	(1,548,998)
Reinsurer's share in insurance claims	27,642	(27,642)	-
Re changes in Reserves	(18,859)	18,859	-
Reinsurer's share in insurance claims and changes in insurance loss reserves	-	8,783	8,783

6. Net earned premium

Net earned premium by insurance type is presented as follows:

2020	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Aviation insurance	3,345,747	(3,150,317)	195,430	(45,790)	149,640
Medical (health) insurance	1,682,549	-	1,682,549	2,542	1,685,091
Compulsory TPL insurance *	1,202,900	-	1,202,900	43,730	1,246,630
Vehicle insurance	1,025,021	(291,182)	733,839	(1,064)	732,775
Property insurance	419,493	(385,235)	34,258	12,902	47,160
Cargo insurance	198,188	(158,550)	39,638	262	39,900
Liability insurance	80,583	-	80,583	(3,128)	77,455
Personal accident insurance	18,236	-	18,236	4	18,240
Travel insurance	648	-	648	720	1,368
Life insurance	-	-	-	4,468	4,468
	7,973,365	**(3,985,284)**	**3,988,081**	**14,646**	**4,002,727**

2019	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Aviation insurance	3,456,422	(3,256,034)	200,388	(29,952)	170,436
Medical (health) insurance	1,502,416	-	1,502,416	192,633	1,695,049
Compulsory TPL insurance *	2,028,092	-	2,028,092	(120,703)	1,907,389
Vehicle insurance	1,434,442	(351,572)	1,082,870	(44,250)	1,038,620
Property insurance	542,084	(435,012)	107,072	(3,399)	103,673
Cargo insurance	227,648	(183,012)	44,636	(1,699)	42,937
Liability insurance	35,050	(20,150)	14,900	20,748	35,648
Personal accident insurance	19,162	-	19,162	2,089	21,251
Travel insurance	3,644	-	3,644	(190)	3,454
Life insurance	(9,321)	-	(9,321)	18,775	9,454
	9,239,639	**(4,245,780)**	**4,993,859**	**34,052**	**5,027,911**

(*) - The Company is an insurer participating in the co-insurance system implemented through a non-profit (non-commercial) legal entity - "Compulsory Insurance Center".

The essence of compulsory insurance is as follows: upon entering the territory of Georgia of a vehicle registered in a foreign state, the owner / driver of the vehicle is obliged to insure his civil liability for the vehicle owned by him for the entire period of his stay on the territory of Georgia. Compulsory insurance will cover the damage caused by the participation of this vehicle and the resulting insurance accident.

7. Commission income

Commission income is presented as follows:

	2020	2019
Current year commission income	222,563	261,951
Deferred income from current year commission (Note 21)	(85,989)	(92,646)
Amortization of prior periods (Note 21)	92,646	68,175
	229,220	**237,480**

8. Insurance claims and changes in the insurance loss reserves, net

Insurance claims and changes in the insurance loss reserves, net is presented as follows:

	2020	2019
Insurance claims paid	(1,354,986)	(1,747,798)
Gross Change in outstanding claims	159,902	180,780
income from subrogation and recovery	5,640	18,020
Insurance claims and changes in the insurance loss reserves	**(1,189,444)**	**(1,548,998)**
Reinsurer's share of insurance claims paid	24,649	27,642
Reinsurer's share of change in outstanding claims	(11,966)	(18,859)
Reinsurer's share in insurance claims and changes in the insurance loss reserves	**12,683**	**8,783**
Net insurance claims	**(1,176,761)**	**(1,540,215)**

9. General and administrative expenses

General and administration expenses is presented as follows:

	2020	2019
Salary expenses	(1,046,995)	(956,941)
Depreciation and amortization	(188,862)	(192,012)
Compulsory insurance center expenses	(175,832)	(127,194)
Charity expenses	(150,000)	(200,000)
Insurance State Supervision Service of Georgia expenses	(74,341)	(84,121)
Consulting expenses*	(52,853)	(46,008)
Communication expenses	(38,552)	(15,165)
Other	(106,857)	(112,144)
	(1,834,292)	**(1,733,585)**

(*) - Accrued expenses under the subheading "Consulting expenses" represent audit fee expenses with the amount of GEL46,731 for the year 2020 (2019: GEL42,947).

10. Impairment expenses

Impairment expenses is presented as follows:

	2020	2019
Change in provision for insurance receivables impairment	(53,593)	(77,053)
Change in provision for subrogation and recovery impairment	4,444	(16,771)
	(49,149)	**(93,824)**

11. Income tax benefit/(expense), net

Income tax benefit/(expense), net is presented as follows:

	2020	2019
Current tax	-	-
Effect of temporary differences	(249,316)	332,218
	(249,316)	**332,218**
Profit before tax	**1,896,818**	**2,386,016**
Applicable tax rate	15%	15%
Theoretical income tax	(284,523)	(357,902)
Effect of not recognized previous temporary differences	42,415	796,909
Effect of permanent differences *	(7,208)	(106,789)
	(249,316)	**332,218**

(*) - The effect of the permanent difference arises from the differences between tax and financial bases of the reserve for impairment of claims on insurance and reinsurance.

Movement in deferred tax asset is presented as follows:

Effect of temporary differences	**31.12.2018**	**Recognized in profit/loss**	**31.12.2019**	**Recognized in profit/loss**	**31.12.2020**
Property and equipment	4,243	(7,159)	(2,916)	1,798	(1,118)
Intangible assets	(646)	1,164	518	813	1,331
Insurance and reinsurance receivables	108,601	(108,601)	-	-	-
Right of use asset	-	6,550	6,550	2,303	8,853
Tax loss carry forward	684,711	(356,645)	328,066	(254,230)	73,836
Tax asset	**796,909**	**(464,691)**	**332,218**	**(249,316)**	**82,902**
Unrecognized temporary differences					
Insurance and reinsurance receivables	(108,601)	108,601	-	-	-
Tax loss carry forward	(688,308)	688,308	-	-	-
Tax asset, net	**-**	**332,218**	**332,218**	**(249,316)**	**82,902**

12. Cash and cash equivalents

Cash and cash equivalents is presented as follows:

	31.12.2020	31.12.2019
Cash at bank in GEL	1,284,189	876,131
Restricted cash*	55,000	55,000
Cash at bank in foreign currencies	1,619	7,789
Cash on hand	1,091	5,367
	1,341,899	**944,287**

(*) - Restricted amount represents cash amount for bank guarantee.

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

13. Bank deposits

Bank deposits is presented as follows:

	31.12.2020	31.12.2019
Deposits in GEL	8,930,000	7,080,000
Interests receivable	61,052	73,004
	8,991,052	**7,153,004**

Bank deposits include one and two year deposits within resident banks in Georgia, with interest rates ranging from 8% to 11%.

The Company is required to have deposits (required reserve) and cash on bank accounts, the amount of which depends on the amount of the estimated insurance claims (insurance liabilities), assessed by the Company. The Company's right to freely dispose of such a deposit is restricted by law. Information on payment terms and currencies is given in Note 4.

14. Other assets

Other assets is presented as follows:

	31.12.2020	31.12.2019
Financial assets		
Receivables from subrogation and recovery	509,281	523,463
Impairment provision*	(500,202)	(504,646)
	9,079	**18,817**
Non-Financial assets		
Compulsory insurance center	109,431	109,431
Salvaged property	1,800	1,800
Other receivables	23,132	12,669
	143,442	**142,717**

Qualitative information about the receivables from subrogation is presented in Note 4.

(*) - Movement in the provision for impairment is presented as follows:

	2020	2019
01 January	**(504,646)**	**(487,875)**
Impairment expenses	4,444	(16,771)
31 December	**(500,202)**	**(504,646)**

15. Insurance and reinsurance receivables

Insurance and reinsurance receivables is presented as follows:

	31.12.2020	31.12.2019
Due from policyholders	3,829,885	4,040,667
Due from reinsurance share in claims	65,145	41,158
Reinsurance commission receivables due from reinsurers	98,139	139,386
	3,993,169	**4,221,211**
Impairment provision	(366,776)	(313,183)
	3,626,393	**3,908,028**

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

15. Insurance and reinsurance receivables (Continued)

Movement in the provision for impairment is presented as follows:

	2020	2019
01 January	**(313,183)**	**(236,130)**
Impairment expenses	(53,593)	(77,053)
31 December	**(366,776)**	**(313,183)**

16. Insurance contract liabilities and reinsurance assets

Insurance contract liabilities and Reinsurance assets is presented as follows:

	31.12.2020	31.12.2019
Insurance contract liabilities		
Unearned premium provision	4,312,489	3,773,029
Provisions for claims reported by policyholders	355,022	516,490
Provisions for claims incurred but not reported (IBNR)	14,252	12,686
	4,681,763	**4,302,205**
Reinsurers' share in the insurance contract liabilities		
Reinsurers' share in unearned premium provision	3,473,298	2,919,192
Reinsurers' share in provisions for claims reported by policyholders	26,766	38,732
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	-	-
	3,500,064	**2,957,924**
Insurance contract liabilities net of reinsurers' share		
Unearned premium provision	839,191	853,837
Provisions for claims reported by policyholders	328,256	477,758
Provisions for claims incurred but not reported (IBNR)	14,252	12,686
	1,181,699	**1,344,281**

Unearned premium reserve

Changes in unearned premium reserve is presented as follows:

Provision for unearned premium, gross	2020	2019
Balance at 1 January	**3,773,029**	**2,938,311**
Gross premium Written	7,973,365	9,239,639
Gross earned premium	(7,433,905)	(8,404,921)
Balance at 31 December	**4,312,489**	**3,773,029**
Provision for unearned premium - reinsurer's share:		
Balance at 1 January	**2,919,192**	**2,050,422**
Reinsurer's share of gross written premium	3,985,284	4,245,780
Gross reinsurer's earned premium	(3,431,178)	(3,377,010)
Balance at 31 December	**3,473,298**	**2,919,192**
Provision for unearned premium - (net of reinsurance)		
Balance at 1 January	**853,837**	**887,889**
Reinsurer's share of gross written premium	3,988,081	4,993,859
Gross reinsurer's earned premium	(4,002,727)	(5,027,911)
Balance at 31 December	**839,191**	**853,837**

16. Insurance contract liabilities and reinsurance assets (Continued)

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

Insurance contracts

(1) Terms and conditions

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

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test we refer to Note 25 (Summary of accounting policies, Insurance Contract Liabilities).

(3) Expected loss estimation method (so-called triangle method)

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis. The tables show the reserves for both claims reported and claims incurred but not yet reported and cumulative payments.

In the tables below, the claims estimates are provided in GEL at the rate of exchange that applied at the day the claims were incurred.

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

	2018	**2019**	**2020**
Accident year	6,354,351	1,751,006	1,558,240
One year later	6,170,363	1,587,068	-
Two year later	5,971,146	-	-
Current estimate of cumulative claims incurred	**5,971,146**	**1,587,068**	**1,558,240**
Accident year	(5,644,395)	(1,467,471)	(1,249,180)
One year later	(5,924,722)	(1,573,278)	-
Two year later	(5,924,722)	-	-
Cumulative payments to date	**(5,924,722)**	**(1,573,278)**	**(1,249,180)**
Gross outstanding claims provision per the statement of financial position	**46,424**	**13,790**	**309,060**
Current estimation of surplus	383,205	163,938	
% of surplus/(deficiency) of initial gross reserve	**6%**	**9%**	

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

	2018	**2019**	**2020**
Accident year	2,154,343	1,689,507	1,527,973
One year later	2,035,117	1,565,448	-
Two year later	1,855,900	-	-
Current estimate of cumulative claims incurred	**1,855,900**	**1,565,448**	**1,527,973**
Accident year	(1,556,320)	(1,447,000)	(1,245,680)
One year later	(1,829,476)	(1,551,657)	-
Two year later	(1,809,476)	-	-
Cumulative payments to date	**(1,809,476)**	**(1,551,657)**	**(1,245,680)**
Gross outstanding claims provision per the statement of financial position	**46,424**	**13,791**	**282,293**
Current estimation of surplus	298,443	124,059	
% of surplus/(deficiency) of initial gross reserve	**14%**	**7%**	

17. Right of use assets and lease liability

The Company has leased a property of administrative office. Lease payments are fixed and defined in GEL. Incremental rate for lease payments is 10%.

Movement in right of use assets and lease liability is presented as follows:

Right of use assets	**2020**	**2019**
At 1 January	**592,271**	**740,338**
Depreciation	(148,067)	(148,067)
At 31 December	**444,204**	**592,271**

Lease liability	**2020**	**2019**
At 1 January	**635,935**	**740,338**
Interest expense	56,047	68,627
Payments	(188,759)	(173,030)
At 31 December	**503,223**	**635,935**

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

18. Property, equipment and intangible assets

Property, equipment and intangible assets is presented as follows:

Historical cost	**Vehicles**	**Office equipment**	**Furniture and fixture**	**Other Property and equipment**	**Intangible assets**	**Total**
31.12.2018	**20,797**	**255,208**	**1,411**	**8,104**	**63,414**	**348,934**
Addition	-	144	-	-	-	**144**
Disposal	-	(415)	-	-	-	**(415)**
31.12.2019	**20,797**	**254,937**	**1,411**	**8,104**	**63,414**	**348,663**
Addition	118,709	16,802	-	-	-	**135,511**
Disposal	(21,952)	(21,033)	(361)	-	-	**(43,346)**
31.12.2020	**117,554**	**250,706**	**1,050**	**8,104**	**63,414**	**440,828**
Accumulated depreciation						
31.12.2018	**(10,567)**	**(185,529)**	**(893)**	**(6,037)**	**(31,621)**	**(234,647)**
Depreciation	(10,230)	(35,934)	(282)	(1,994)	(5,418)	**(53,858)**
Disposal	-	311	-	-	-	**311**
31.12.2019	**(20,797)**	**(221,152)**	**(1,175)**	**(8,031)**	**(37,039)**	**(288,194)**
Depreciation	(12,651)	(25,633)	(170)	(73)	(5,418)	**(43,945)**
Disposal	20,997	20,185	295	-	-	**41,477**
31.12.2020	**(12,451)**	**(226,600)**	**(1,050)**	**(8,104)**	**(42,457)**	**(290,662)**
Net book value						
31.12.2019	**-**	**33,785**	**236**	**73**	**26,375**	**60,469**
31.12.2020	**105,103**	**24,106**	**-**	**-**	**20,957**	**150,166**

The historical cost of fully depreciated property and equipment still used by the Company as at 31 December 2020 is GEL224,728 (as at 31 December 2019: GEL183,411).

19. Share capital

Share Capital can be presented as follows:

	Authorized shares			
	31.12.2020	31.12.2020	31.12.2019	31.12.2019
-	Number	Amount	Number	Amount
Ordinary share of GEL 1 each	9,620,300	9,620,300	9,620,300	9,620,300

	Issued and fully paid			
	2020	2020	2019	2019
	Number	Amount	Number	Amount
At 1 January	**9,620,300**	**9,620,300**	**9,620,300**	**9,620,300**
Ordinary share issues for cash during the year	-	-	-	-
At 31 December	**9,620,300**	**9,620,300**	**9,620,300**	**9,620,300**

20. Other insurance liabilities

Other insurance liabilities are comprised from liabilities with reinsurers and is presented as follows:

	31.12.2020	31.12.2019
Willis Towers Watson	3,070,469	-
Paraklis Insurance Solutions Ltd (Skor Prestrakhovanie Ltd)	458,830	537,388
JSC Busin	63,690	2,356,199
Alpen AIB	-	297,432
Marsh Ltd	-	204,139
Other	12,865	17,675
	3,605,854	**3,412,833**

21. Deferred commission income

Deferred commission income is presented as follows:

	2020	2019
01 January	**92,646**	**68,175**
Commission income differed from current year policies (Note 7)	85,989	92,646
Amortization of deferred commission income (Note 7)	(92,646)	(68,175)
31 December	**85,989**	**92,646**

22. Transactions with related parties

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

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;

b) Members of key management personnel of the Company or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

22. Transactions with related parties (Continued)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and other related parties are disclosed below.

transactions with related parties included in the statement of comprehensive income are the following:

	2020	2019
	Transactions with related party	Transactions with related party
Gross written premiums on insurance contracts		
Founder	668,156	661,173
Other related party*	1,012,400	1,153,166
Earned premiums		
Founder	672,273	615,184
Other related party*	1,049,098	1,303,931
Insurance claims and loss adjustment expenses		
Founder	(479,852)	(543,206)
Other related party*	(152,965)	(261,182)
General and administration expenses		
Founder	(26,510)	(27,229)
Other related party*	(176,666)	(204,437)
Key management personnel compensation		
Short term employee benefits	(149,171)	(135,969)
Financial income		
Founder	694,983	464,901
Other related party*	(56,047)	(68,627)

	31.12.2020	31.12.2019
	Related party balances	Related party balances
Bank deposits		
Founder	8,187,090	6,504,539
Insurance and reinsurance receivables		
Other related party*	151,377	107,976
Right of use asset		
Other related party*	444,204	592,271
Other Liabilities		
Founder	2,363	2,727
Other related party*	245	245
Lease liability		
Other related party*	503,223	635,935

(*) – Other related party mostly represent entities under common control.

23. Commitments and contingencies

Legal cases

As at 31 December 2020 and 2019 the Company has no significant legal actions and complaints. The Management believes that the no material losses will be incurred, accordingly no provision is accrued in the financial statements.

Taxes

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

Management report

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

24. Events after the reporting period

As of 22 March 2021, helicopter insured in JSC Insurance Company Cartu suffered a catastrophe. As a result of this accident the Company incurred an insurance loss. The policy is ceded to reinsurer company with 100%. Currently investigation and estimation of insurance loss is in process. Maximum loss according to the policy terms (Insurance limit) totals GEL5,998,680 (USD1,800,000).

25. Summary of significant accounting policies

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

25.1 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

The closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	**EUR**
Exchange rate as at 31.12.2020	3.2766	4.0233
Exchange rate as at 31.12.2019	2.8677	3.2095

25.2 Property and equipment

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

25. Summary of significant accounting policies (Continued)

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

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

Class	Useful life (Year)
Vehicles	5-10
Office equipment	5-7
Furniture and fixture	5-7
Other	5

Assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The difference is recognized in comprehensive income as other income/expense.

25.3 Intangible Assets

Accounting Software

Intangible assets are measured on initial recognition at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Amortization is calculated using the straight-line method to allocate assets' cost or cost after impairment amounts to their residual values over their estimated useful lives.

Useful life of the intangible asset of the Company is 10 Years.

25.4 Lease

Company as lessee

Identifying the lease

At the start of the contract, the Company should assess whether the contract as a whole is a lease, or whether it contains a lease. A contract is a lease agreement, or contains a lease, if the contract transfers control of the identified asset over a period of time in exchange for a refund. To determine whether a contract confers control over the use of an identified asset over a period of time, the Company should assess whether the customer has both of the following rights during the period of use:

- The right to receive actually the full benefit of the asset identified in the contract, and
- Right to direct the use of that identified asset.

Initial recognition

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

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

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

- An asset representing the right to use the underlying asset over the lease term;
- A liability for the obligation to pay the lease payments.

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

25. Summary of significant accounting policies (Continued)

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

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

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

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

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Right of use asset is amortized over 5 years.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

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

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.
- The Company elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Determination of lease term

The lease term is defined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (including the renewal option implied through customary business practices) if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

25. Summary of significant accounting policies (Continued)

The Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Company. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

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

Determination of lease payments

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

Short-term leases and leases of low-value assets

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

25.5 Insurance contracts

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

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

25.6 Reinsurance contracts

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

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

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

The impairment loss is calculated following the same method used for these financial assets.

25. Summary of significant accounting policies (Continued)

25.7 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are comprised with receivables and payables as amounts due to and from agents, brokers and insurance contract holders.

Insurance and reinsurance receivables are recognised based upon insurance policy terms. Reinsurance receivables primarily include balances due from reinsurance companies for ceded insurance liabilities.

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

(i) Salvage and subrogation reimbursements

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

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

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

25.8 Insurance contract liabilities

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

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

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

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

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

Considering the past experience, the reserve for incurred but not reported insurance claims is formed by the Company at the end of reporting date.

Calculation of Reserve for incurred but not reported claims is conducted by statistitians. IBNR is calculated using actuarial method, such as “chain ledder” method using paid/incurred losses (Frequency of claims paid, Quantity of claims etc.) for estimating present and future claims to be reported.

The chain ladder method (CLM) is used by insurers to forecast the amount of reserves that must be established in order to cover future claims.

(iii) Unearned premium reserve

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

25. Summary of significant accounting policies (Continued)

25.9 Liability adequacy test

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

25.10 Financial instruments

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

(a) Receivables

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

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

For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's receivables comprise insurance and reinsurance receivables, bank deposits and cash and cash equivalents accounts. Cash and cash equivalents include cash on current accounts and cash on hand.

(b) Held-to-maturity investments

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

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

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

(c) Those that meet the definition of receivables.

(c) Fair value through profit or loss

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

(a) It is classified as held for trading. A financial asset is classified as held for trading if it is:

- (i) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- (ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only:

- (i) If a contract contains one or more embedded derivatives. In this case an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless:
  - The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

25. Summary of significant accounting policies (Continued)

- It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost; or

(ii) When doing so results in more relevant information, because either:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

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

(d) Available-for-sale

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

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

Derecognition of financial assets

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

Financial liabilities

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

(a) Fair value through profit or loss

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

(a) It is classified as held for trading

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

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

(b) ***Other financial liabilitie*****s**

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

Derecognition of financial liabilities

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

25. Summary of significant accounting policies (continued)

Offsetting

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

25.11 Income and expense recognition

Written Premium

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Insurance premiums written reflect business incepted during the year, are shown before deduction of commission and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on daily pro rata basis.

Premiums ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

Provision for unearned premiums

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the statement of comprehensive income in the order that revenue is recognised over the period of risk.

Benefits and claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received.

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries.

25.12 Staff costs and related contributions

Wages, salaries, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

25.13 Current and deferred income tax

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

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

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

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

25. Summary of significant accounting policies (continued)

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except banks, insurance companies and microfinance organizations, for which the effective date is 1 January 2019. On 5 May 2018 amendment was made in tax code and the date was revised to January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated by grossing-up (1/85% *15%) the amount of distribution. The companies will be able to offset the corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividend distributions between Georgian resident companies will not be subject to corporate income tax.

Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

25.14 Events after the reporting period

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