JSC INSURANCE COMPANY CARTU AND SUBSIDIARY

Consolidated and Separate Financial Statements

Independent Auditor's Report

Year ended 31 December 2019

Contents:

Tel: +995 32 254 58 45
bdo@bdo.ge
www.bdo.ge

2 Tarkhnishvili Street
Vere Business Center, 7th floor
0179 Tbilisi
Georgia

INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC INSURANCE COMPANY CARTU

Opinion

We have audited the Separate Financial statements of JSC INSURANCE COMPANY CARTU, (hereinafter - the Company) and the Consolidated Financial statements of the Company and its subsidiary (hereinafter – the Group) which comprise the separate and consolidated statements of financial position as at 31 December 2019, and the separate and consolidated statements of comprehensive income, separate and consolidated changes in equity and separate and consolidated cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of the Company and the Group as at 31 December 2019, and its separate and consolidated 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 separate and consolidated financial statements section of our report. We are independent of the Company and the Group 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 separate and consolidated 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 separate and consolidated financial statements

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

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

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

Auditor's Responsibilities for the Audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group'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 separate and consolidated 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and the Group to express an opinion on the separate and consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

27 April 2020

SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

	Notes	2019	2018
Gross written premiums on insurance contracts		9,239,639	5,914,680
Reinsurer's share of gross written premium on insurance contracts		(4,245,780)	(3,118,677)
Net written premium		**4,993,859**	**2,796,003**
Changes in provision for unearned premiums		(834,718)	(1,020,530)
Changes in the re-insurers portion in provision for unearned premiums		868,770	1,399,379
Net insurance revenue	**6**	**5,027,911**	**3,174,852**
Commission income	7	237,480	345,162
Total revenue		**5,265,391**	**3,520,014**
Insurance claims and loss adjustment expenses		(1,729,778)	(6,101,634)
Reinsurer's share in insurance claims		27,642	4,088,075
Changes in IBNR		42,554	(1,083)
Changes in RBNS		138,226	254,093
Re changes in Reserves		(18,859)	(128,647)
Net insurance claims	**8**	**(1,540,215)**	**(1,889,196)**
General and administration expenses	9	(1,275,357)	(1,253,307)
Acquisition costs		-	(16,945)
Impairment expenses	10	(93,824)	(94,264)
Other expenses	11	(458,228)	(240,247)
Financial income, net		448,552	278,746
Gain from exchange rate difference, net		39,697	48,455
Profit before tax		**2,386,016**	**353,256**
Income tax benefit	12	332,218	-
Total comprehensive income		**2,718,234**	**353,256**

These separate and consolidated financial statements were approved by management on 27 April 2020 and were signed on its behalf by:

Executive director	______________________	G. Mikaberidze
Financial director	______________________	G. Lebanidze

Notes on pages 9-39 are the integral part of these Separate and consolidated financial statements.

JSC INSURANCE COMPANY CARTU AND SUBSIDIARY

SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

	Notes	2019	2018
Gross written premiums on insurance contracts		9,239,639	5,914,680
Reinsurer's share of gross written premium on insurance contracts		(4,245,780)	(3,118,677)
Net written premium		**4,993,859**	**2,796,003**
Changes in provision for unearned premiums		(834,718)	(1,020,530)
Changes in the re-insurers portion in provision for unearned premiums		868,770	1,399,379
Net insurance revenue	6	**5,027,911**	**3,174,852**
Commission income	7	237,480	345,162
Total revenue		**5,265,391**	**3,520,014**
Insurance claims and loss adjustment expenses		(1,729,778)	(6,101,634)
Reinsurer's share in insurance claims		27,642	4,088,075
Changes in IBNR		42,554	(1,083)
Changes in RBNS		138,226	254,093
Re changes in Reserves		(18,859)	(128,647)
Net insurance claims	8	**(1,540,215)**	**(1,889,196)**
General and administration expenses	9	(1,275,357)	(1,253,307)
Acquisition costs		-	(16,945)
Impairment expenses	10	(93,824)	(94,264)
Other expenses	11	(458,228)	(240,247)
Financial income, net		448,552	278,746
Gain from exchange rate difference, net		39,697	48,455
Profit before tax		**2,386,016**	**353,256**
Income tax benefit	12	332,218	-
Total comprehensive income		**2,718,234**	**353,256**

These separate and consolidated financial statements were approved by management on 27 April 2020 and were signed on its behalf by:

Executive director ______________ G. Mikaberidze

Financial director ______________ G. Lebanidze

Notes on pages 9-39 are the integral part of these Separate and consolidated financial statements.

SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(In GEL)

	Notes	31.12.2019	31.12.2018
Assets			
Property, equipment and intangible assets	13	150,166	60,469
Right-of-use assets	14	592,271	-
Deferred income tax asset	12	332,218	-
Reinsurance assets	15	2,957,924	2,108,013
Insurance and reinsurance receivables	16	3,908,028	2,861,740
Other assets	17	142,717	179,328
Amounts due from credit institutions	18	7,153,004	5,491,619
Cash and cash equivalents	19	944,287	640,463
Total assets		**16,180,615**	**11,341,632**
Equity			
Share capital	20	9,620,300	9,620,300
Accumulated loss		(1,897,626)	(4,615,860)
Equity attributable to owners of the company		**7,722,674**	**5,004,440**
Liabilities			
Lease liability	14	635,935	-
Insurance contract liabilities	15	4,302,205	3,648,267
Other insurance liabilities	21	3,412,833	2,515,883
Differed commission income	22	92,646	68,175
Other liabilities		14,322	104,867
Total liabilities		**8,457,941**	**6,337,192**
Total equity and liabilities		**16,180,615**	**11,341,632**

Notes on pages 9-39 are the integral part of these separate and consolidated financial statements.

SEPARATE AND CONSOLIDATED STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2019

(In GEL)

	Share capital	Accumulated loss	Total
31.12.2017	**7,620,300**	**(4,969,116)**	**2,651,184**
Issue of share capital	2,000,000	-	**2,000,000**
Total comprehensive income	-	353,256	**353,256**
31.12.2018	**9,620,300**	**(4,615,860)**	**5,004,440**
Total comprehensive income	-	2,718,234	**2,718,234**
31.12.2019	**9,620,300**	**(1,897,626)**	**7,722,674**

Notes on pages 9-39 are the integral part of these separate and consolidated financial statements.

SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(In GEL)

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year before income tax		2,386,016	353,256
Adjustments for:			
Depreciation and amortization	13,14	192,012	53,858
Changes in unearned premium reserves		834,718	1,020,530
Change of reinsurer's share in unearned premium reserves		(868,770)	(1,399,379)
Changes in IBNR		(42,554)	1,083
Changes in RBNS		(138,226)	(254,093)
Changes in insurance claims reserves reinsurer's share		18,859	128,647
Loss from disposal of fixed assets		1,869	104
Loss from sale of salvages		58,608	-
Changes in deferred commission income	22	24,471	(134,380)
Impairment expenses	10	93,824	94,264
Interest income, net		(448,552)	(278,746)
Income from exchange rate difference		(39,697)	(48,455)
Cash flows from/ (used in) operating activities before changes in working capital		**2,072,578**	**(463,311)**
(Increase)/decrease in insurance and reinsurance receivables		(1,008,905)	408,786
Increase in other insurance liabilities		811,044	231,405
(Increase)/ decrease in other current assets		(21,758)	17,277
Decrease in other liabilities		(118,221)	(704)
Cash generated from operations		**1,734,738**	**193,453**
Increase in amount due from credit institutions		(1,614,671)	(2,321,482)
Interest received		470,465	278,746
Net cash flows from/(used in) operating activities carried forward		**590,532**	**(1,849,283)**
Investing activities			
Purchase of fixed and intangible assets		(107,836)	(599)
Net cash used in investing activities		**(107,836)**	**(599)**
Financing activities			
Owners contribution	20	-	2,000,000
Principal paid on lease liability		(109,659)	-
Interest paid on lease liabilities		(63,371)	-
Net cash from/(used in) financing activities		**(173,030)**	**2,000,000**
Net Increase in cash and cash equivalents		**309,666**	**150,118**
Cash and cash equivalents at the beginning of year	**19**	**640,463**	**512,327**
Effect of changes in foreign exchange rate on cash and cash equivalents		(5,842)	(21,982)
Cash and cash equivalents at the end of year	**19**	**944,287**	**640,463**

Notes on pages 9-39 are the integral part of these separate and consolidated financial statements.

1. General information

JSC Insurance Company Cartu with identification number 204970031 (later – the Company) was registered in 2001. 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 and its subsidiary (later – group) were founded in accordance with Georgian law.

As at 31st of December 2019 and 2018, 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, therefore presented separate and consolidated financial statements of the Company, as at 31st of December 2019 and 2018 are not different from each other.

As at 31st December 2019 and 2018, 8.61% of company’s share capital is owned by LLC “Ringold Finance Limited”, and 91.39% is owned by JSC “Cartu Bank”, of which, the ultimate shareholder is Uta Ivanishvili, with 100% of the shares.

2. Basis of preparation

The principal accounting policies applied in the preparation of these Separate and consolidated financial statements are set out in Note 27.

2.1 Basis of measurement

These separate and consolidated 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 Separate and consolidated financial statements have been prepared under the historical cost bases. The reporting period for the Group is the calendar year from January 1 to December 31.

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

As separate and consolidated financial statements for the years ended 31 December 2019 and 2018 are identical, management decided to present them together as one package of financial statements.

2. Basis of preparation (Continued)

2.2 Basis for consolidation

The separate and consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Can use its power to affect its returns.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above

When the Company has less than majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. A parent presents non-controlling interests in its consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

JSC Insurance Company Cartu and its subsidiary “Reestri XXI” use the same accounting policies, that are in accordance with the Group policies.

2.3 Going Concern

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

2.4 Changes in accounting policies

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

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

- *IFRS 16 Leases (IFRS 16)*

Details of the impact IFRS 16 have had are given in Note 26 below. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group’s activities or require accounting which is consistent with the Group’s current accounting policies.

2. Basis of preparation (Continued)

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2020:

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

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

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

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

Other

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

3. Critical accounting estimates and judgements

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

Estimates and assumptions

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

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

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

3. Critical accounting estimates and judgements (Continued)

b) Impairment of insurance and reinsurance receivables

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

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

c) Taxation

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

d) Legal proceedings

The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the

opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

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

4. Risk management

The activities of the Group are exposed to various risks. Risk management therefore is a critical component of its insurance activities. Risk is inherent in the Group'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 Group is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Group's risk management policies in relation to those risks are given below.

Capital management objectives, policies and approach

The Group 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 Group 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.

4. Risk management (Continued)

The operations of the Group 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 Group's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on Insurance State Supervision Service of Georgia directives.

Insurance State Supervision Service of Georgia (ISSSG) sets minimum capital requirements for local insurance companies.

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 separate 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.

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

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

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

4. Risk management (Continued)

Insurance risk

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

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

The Group 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 Group's loss ratios calculated on a net basis were as follows:

	2019	**2018**
Loss Ratio	31%	60%

Higher Loss ratio of the pervious year was caused by one particular loss case similar which was not incurred in 2019.

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

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

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.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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 Group 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.

4. Risk management (Continued)

The estimation of IBNR is generally subject to more uncertainty than the estimation of the cost of settling claims already notified to the Group, 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 Group has prudential estimation of outstanding insurance liabilities. At the end of each reporting period the Group assess whether its recognized insurance liabilities are adequate: The Group determines whether the amount of recognized insurance liabilities is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets". If it is less, the insurer will recognize the entire difference in profit or loss and increase the carrying amount of the relevant insurance liabilities.

Financial Risk

The Group 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 Group, from which financial instrument risk arises, are as follows:

	31.12.2019	31.12.2018
Reinsurance assets (except Unearned premium reserve)	38,732	57,591
Insurance and reinsurance receivables	3,908,028	2,861,740
Other assets	18,817	2,667
Amounts due from credit institutions	7,153,004	5,491,619
Cash and cash equivalents	944,287	640,463
Total financial assets	**12,062,868**	**9,054,080**
Lease liability	635,935	-
Insurance contract liabilities (except unearned premium reserve)	529,176	709,956
Other insurance liabilities	3,412,833	2,515,883
Other liabilities	4,186	95,289
Total financial liabilities	**4,582,130**	**3,321,128**

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).

4. Risk management (Continued)

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

The Group 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

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

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is collective loss component. The collective loss allowance is determined based on ageing analysis and overdue status for customers.

Reinsurance

The Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract. The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

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

Ageing of insurance receivables as at 31 December 2019 and 2018 is as follows:

	31.12.2019	**31.12.2018**
Neither past due, nor impaired	3,797,039	2,823,312
Past due 0-3 months	-	-
Past due 3 - 6 months	125,702	39,014
Past due 6 - 9 months	16,243	24,804
Past due 9 - 12 months	5,219	12,528
Past due more than 12 months	277,008	198,212
Impairment provision	(313,183)	(236,130)
	3,908,028	**2,861,740**

According to the management's estimation financial assets other than insurance and reinsurance receivables represent the category of "Not past due and not impaired" category.

4. Risk management (Continued)

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they fall due. The management controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period.

The Group 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:

2019	Up to 1 year	From 1 year to 5 years	Total
Financial liabilities			
Lease liability	204,490	566,280	**770,770**
Insurance contract liability (except Unearned premium reserve)	529,176	-	**529,176**
Other insurance liabilities	3,412,833	-	**3,412,833**
Other liabilities	4,186	-	**4,186**
	4,150,685	**566,280**	**4,716,965**

2018	Up to 1 year	From 1 year to 5 years	Total
Financial liabilities			
Lease liability	709,956	-	**709,956**
Insurance contract liability (except Unearned premium reserve)	2,515,883	-	**2,515,883**
Other insurance liabilities	95,289	-	**95,289**
Other liabilities	**3,321,128**	**-**	**3,321,128**

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 Group'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 Group 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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

4. Risk management (Continued)

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

2019	GEL	USD	EUR	Total
Financial assets				
Reinsurance assets (except unearned premium reserve)	38,732	-	-	**38,732**
Insurance and reinsurance receivables	565,721	3,182,337	159,970	**3,908,028**
Other assets	18,817	-	-	**18,817**
Amounts due from credit institutions	7,153,004	-	-	**7,153,004**
Cash and cash equivalents	936,498	560	7,229	**944,287**
	8,712,772	**3,182,897**	**167,199**	**12,062,868**
Financial liabilities				
Lease liability	635,935	-	-	**635,935**
Insurance contract liabilities (except unearned premium reserve)	529,176	-	-	**529,176**
Other insurance liabilities	-	2,878,631	534,202	**3,412,833**
Other liabilities	4,186	-	-	**4,186**
	1,169,297	**2,878,631**	**534,202**	**4,582,130**
Open balance sheet position	**7,543,475**	**304,266**	**(367,003)**	

2018	GEL	USD	EUR	Total
Financial assets				
Reinsurance assets (except unearned premium reserve)	57,591	-	-	**57,591**
Insurance and reinsurance receivables	729,101	1,758,831	373,808	**2,861,740**
Other assets	2,667	-	-	**2,667**
Amounts due from credit institutions	5,491,619	-	-	**5,491,619**
Cash and cash equivalents	639,131	1,202	130	**640,463**
	6,920,109	**1,760,033**	**373,938**	**9,054,080**
Financial liabilities				
Insurance contract liability (except unearned premium reserve)	709,956	-	-	**709,956**
Other insurance liabilities	-	1,691,121	824,762	**2,515,883**
Other liabilities	95,289	-	-	**95,289**
	805,245	**1,691,121**	**824,762**	**3,321,128**
Open balance sheet position	**6,114,864**	**68,912**	**(450,824)**	

4. Risk management (Continued)

Currency risk sensitivity

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

Impact on net profit and equity based on asset values as at 31 December 2019 and 2018:

		USD		EUR	
Year		**GEL/USD 20%**	**GEL/USD - 20%**	**GEL/EUR 20%**	**GEL/EUR - 20%**
2019	Profit/Loss	60,853	(60,853)	(73,401)	73,401
2018	Profit/Loss	13,782	(13,782)	(90,165)	90,165

5. Prior period reclassifications

The Group made some reclassifications and restated the comparative figures for the periods ended 31 December 2018.

Management believes that new presentation is more relevant for the separate and consolidated financial performance of the Group.

	As previously presented	Prior period reclassifications	As restated
Distribution expenses	**(10,149)**	10,149	**-**
General and administrative expenses	**(1,243,158)**	(10,149)	**(1,253,307)**
Insurance claims and loss adjustment expenses	**(6,123,073)**	21,439	**(6,101,634)**
Other insurance income	**21,439**	(21,439)	**-**

6. Net earned premium

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

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
Compulsory TPL insurance*	2,028,092	-	2,028,092	(120,703)	1,907,389
Medical (health) insurance	1,502,416	-	1,502,416	192,633	1,695,049
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**

6. Net earned premium (Continued)

2018	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Net changes in unearned premium	Net insurance revenue
Aviation insurance	2,433,905	(2,391,420)	42,485	(30,563)	11,922
Medical (health) insurance	1,741,047	-	1,741,047	337,659	2,078,706
Compulsory TPL insurance*	537,436	-	537,436	(27,676)	509,760
Property insurance	482,340	(412,234)	70,106	35,142	105,248
Vehicle insurance	447,225	(152,887)	294,338	39,440	333,778
Cargo insurance	168,624	(115,328)	53,296	(766)	52,530
TPL/Liability insurance	90,523	(46,608)	43,915	3,250	47,165
Personal accident insurance	5,495	(200)	5,295	7,355	12,650
Life insurance	5,160	-	5,160	15,313	20,473
Travel insurance	2,925	-	2,925	(350)	2,575
Financial loss insurance	-	-	-	45	45
	5,914,680	**(3,118,677)**	**2,796,003**	**378,849**	**3,174,852**

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

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

7. Commission income

Commission income can be presented as follows:

	2019	2018
Current year commission income	261,951	210,782
Deferred commission income from issued policies in the current year (Note 22)	(92,646)	(68,175)
Amortization of prior period policies (Note 22)	68,175	202,555
	237,480	**345,162**

8. Insurance claims and loss adjustment expenses

Insurance claims and loss adjustment expenses can be presented as follows:

	2019	2018
Insurance claims paid	(1,747,798)	(6,101,634)
Gross Change in outstanding claims	180,780	253,010
Income from subrogation and recovery	18,020	-
Insurance claims and loss adjustment expenses	**(1,548,998)**	**(5,848,624)**
Reinsurer's share of general insurance claims paid	27,642	4,088,075
Reinsurer's share of change in outstanding claims	(18,859)	(128,647)
Reinsurer's share in insurance claims paid and change in outstanding claims	**8,783**	**3,959,428**
Net insurance claims	**(1,540,215)**	**(1,889,196)**

9. General and administrative expenses

General and administration expenses can be presented as follows:

	2019	2018
Salary expenses	(956,941)	(868,625)
Depreciation and amortization	(192,012)	(53,858)
Communication expenses	(15,165)	(37,080)
Bank fees	(5,016)	(4,249)
Lease expenses	(2,068)	(191,785)
Business trip expense	(341)	(2,203)
Other*	(103,814)	(95,507)
	(1,275,357)	**(1,253,307)**

(*) – Accrued expenses under the subheading “Other” represent audit fee expenses with the amounts of GEL42,947 and GEL35,503 for the years 2019 and 2018, respectively.

10. Impairment expenses

Impairment expenses can be presented as follows:

	2019	2018
Insurance receivable impairment expense	(77,053)	(80,983)
Subrogation and recovery impairment expense	(16,771)	(13,281)
	(93,824)	**(94,264)**

11. Other expenses

Other expenses can be presented as follows:

	2019	2018
Charity expenses	(200,000)	-
Compulsory insurance center	(127,194)	(158,511)
Insurance State Supervision Service of Georgia	(84,121)	(59,930)
Other	(46,913)	(21,806)
	(458,228)	**(240,247)**

12. Income tax benefit

Income tax benefit can be presented as follows:

	2019	2018
Current tax	-	-
Effect of temporary differences	332,218	-
	332,218	**-**
Profit before tax	**2,386,016**	**353,256**
Applicable tax rate	**15%**	**15%**
Theoretical income tax	(357,902)	(52,988)
Effect of previous temporary differences not recognized	796,909	-
Temporary differences not recognized	-	129,955
Effect of Permanent differences	(106,789)	(76,967)
	332,218	**-**

Movement in deferred tax asset can be presented as follows:

Effect of temporary differences	**31.12.2017**	**Recognized in profit/loss**	**31.12.2018**	**Recognized in profit/loss**	**31.12.2019**
Property and equipment	(659)	4,902	4,243	(7,159)	(2,916)
Intangible assets	(461)	(185)	(646)	1,164	518
Insurance and reinsurance receivables	76,416	32,185	108,601	(108,601)	-
Right-of-use asset	-	-	-	6,550	6,550
Tax loss carried forward	851,568	(166,857)	684,711	(356,645)	328,066
Tax asset	**926,864**	**(129,955)**	**796,909**	**(464,691)**	**332,218**
Unrecognized temporary differences					
Property and equipment	-	(4,902)	(4,902)	4,902	-
Intangible assets	-			-	-
Insurance and reinsurance receivables	(76,416)	(32,185)	(108,601)	108,601	-
Tax loss carried forward	(850,448)	167,042	(683,406)	683,406	-
Tax asset, net	**-**	**-**	**-**	**332,218**	**332,218**

13. Property, equipment and intangible assets

Property, equipment and intangible assets can be presented as follows:

Historical cost	Vehicles	Office equipment	Furniture and fixture	Other Property and equipment	Intangible assets	Total
31.12.2017	**20,797**	**255,208**	**1,411**	**8,104**	**63,414**	**348,934**
Addition	-	144	-	-	-	**144**
Disposal	-	(415)	-	-	-	**(415)**
31.12.2018	**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)**
31.12.2019	**117,554**	**250,706**	**1,050**	**8,104**	**63,414**	**440,828**
Accumulated depreciation						
31.12.2017	**(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**
31.12.2018	**(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**
31.12.2019	**(12,451)**	**(226,600)**	**(1,050)**	**(8,104)**	**(42,457)**	**(290,662)**
Net book value						
31.12.2018	**-**	**33,785**	**236**	**73**	**26,375**	**60,469**
31.12.2019	**105,103**	**24,106**	**-**	**-**	**20,957**	**150,166**

14. Right-of-use assets

The Group 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	
At 1 January 2019	**740,338**
Additions	-
Amortization	(148,067)
At 31 December 2019	**592,271**
Lease liabilities	
At 1 January 2019	**740,338**
Additions	-
Interest expense	68,627
Lease payments	(173,030)
At 31 December 2019	**635,935**

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

15. Insurance contract liabilities and Reinsurance assets

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

	31.12.2019	31.12.2018
Insurance contract liabilities		
Unearned premium provision	3,773,029	2,938,311
Provisions for claims reported by policyholders	516,490	654,716
Provisions for claims incurred but not reported (IBNR)	12,686	55,240
	4,302,205	**3,648,267**
Reinsurance assets		
Reinsurers' share in unearned premium provision	2,919,192	2,050,422
Reinsurers' share in provisions for claims reported by policyholders	38,732	57,591
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	-	-
	2,957,924	**2,108,013**
Insurance contract liabilities net of reinsurance		
Unearned premium provision	853,837	887,889
Provisions for claims reported by policyholders	477,758	597,125
Provisions for claims incurred but not reported (IBNR)	12,686	55,240
	1,344,281	**1,540,254**

Unearned premium provision

Changes in unearned premium provision can be presented as follows:

Provision for unearned premium, gross	**2019**	**2018**
Balance at 1 January	**2,938,311**	**1,917,781**
Gross premium Written	9,239,639	5,914,680
Gross earned premium	(8,404,921)	(4,894,150)
Balance at 31 December	**3,773,029**	**2,938,311**
provision for unearned premium - reinsurer's share		
Balance at 1 January	**2,050,422**	**651,043**
Reinsurer's share of gross written premium	4,245,780	3,118,677
Gross reinsurer's earned premium	(3,377,010)	(1,719,298)
Balance at 31 December	**2,919,192**	**2,050,422**
provision for unearned premium - (net of reinsurance)		
Balance at 1 January	**887,889**	**1,266,738**
Reinsurer's share of gross written premium	4,993,859	2,796,003
Gross reinsurer's earned premium	(5,027,911)	(3,174,852)
Balance at 31 December	**853,837**	**887,889**

15. 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 27 – Summary of accounting policies, Insurance Contract Liabilities

16. Insurance and reinsurance receivables

Insurance and reinsurance receivables can be presented as follows:

	31.12.2019	**31.12.2018**
Due from policyholders	4,040,667	2,848,748
Due from reinsurance share in claims	41,158	58,760
Reinsurance commission receivables due from reinsurers	139,386	190,362
	4,221,211	**3,097,870**
Impairment provision	(313,183)	(236,130)
	3,908,028	**2,861,740**

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

Movement in the provision for impairment can be presented as follows:

	2019	**2018**
01 January	**(236,130)**	**(155,147)**
Impairment expenses	(77,053)	(80,983)
31 December	**(313,183)**	**(236,130)**

17. Other assets

Other assets can be presented as follows:

	31.12.2019	31.12.2018
Financial assets		
Receivables from subrogation and recovery	523,463	490,542
Impairment provision	(504,646)	(487,875)
	18,817	**2,667**
Non-Financial assets		
Prepayments to compulsory insurance center	109,431	23,529
Salvaged property	1,800	105,533
Other receivables	12,669	47,599
	142,717	**179,328**

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

Movement in the provision for impairment can be presented as follows:

	2019	2018
01 January	**(487,875)**	**(474,594)**
Impairment expenses	(16,771)	(13,281)
31 December	**(504,646)**	**(487,875)**

18. Amounts due from credit institutions

Amounts due from credit institutions can be presented as follows:

	31.12.2019	31.12.2018
Deposits in GEL	7,080,000	5,462,000
Interests receivable	73,004	29,619
	7,153,004	**5,491,619**

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

19. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	31.12.2019	31.12.2018
Cash at bank in GEL	876,131	581,111
Restricted cash*	55,000	55,000
Cash at bank in foreign currencies	7,789	1,332
Cash at hand	5,367	3,020
	944,287	**640,463**

(*) - Restricted amount represents cash amount for bank guarantee. Additional information about currencies of cash and cash equivalents is disclosed in Note 4.

20. Share capital

Share Capital can be presented as follows:

	Authorized shares			
	31.12.2019	**31.12.2019**	**31.12.2018**	**31.12.2018**
_	**Number**	**Amount**	**Number**	**Amount**
Ordinary shares of GEL 1 each	9,620,300	9,620,300	9,620,300	9,620,300

	Issued and fully paid			
	2019	**2019**	**2018**	**2018**
	Number	**Amount**	**Number**	**Amount**
At 1 January	**9,620,300**	**9,620,300**	**7,620,300**	**7,620,300**
Ordinary share issues for cash during the year	-	-	2,000,000	2,000,000
At 31 December	**9,620,300**	**9,620,300**	**9,620,300**	**9,620,300**

21. Other insurance liabilities

Other insurance liabilities can be presented as follows:

	31.12.2019	**31.12.2018**
Private Joint-Stock Company BUSIN	2,356,199	805,948
Paraklis Insurance Solutions Ltd	537,388	673,082
Alpen AIB	297,432	238,054
Marsh Ltd	204,139	752,769
Other	17,675	46,030
	3,412,833	**2,515,883**

22. Deferred commission income

Deferred commission income can be presented as follows:

	2019	**2018**
01 January	**68,175**	**202,555**
Comicon income differed from current year policies (Note 7)	92,646	68,175
Amortization of deferred commission income (Note 7)	(68,175)	(202,555)
31 December	**92,646**	**68,175**

23. 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 Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;

b) Members of key management personnel of the Group 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);

23. 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 Group and other related parties are disclosed below.

Included in the statement of comprehensive income for the years ended 31 December 2019 and 2018 are the following amounts which were recognized in transactions with related parties:

	2019	2018
	Related party transactions	Related party transactions
Gross written premium		
Founder	669,211	579,018
Other related party*	1,145,127	441,446
Insurance claims and loss adjustment expenses		
Founder	(543,206)	(537,238)
Other related party*	(261,182)	(443,452)
General and administration expenses		
Founder	(27,229)	(10,340)
Other related party*	(4,437)	(4,739)
Key management personnel compensation		
Short term employee benefits	(135,969)	(104,813)
Other expenses		
Other related party*	(200,000)	-
Financial income, net		
Founder	396,274	234,162

	31.12.2019	31.12.2018
Right-of-use assets		
Founder	592,271	-
Insurance and reinsurance receivables		
Other related party*	107,976	111,133
Amount due from credit institutions		
Founder	6,504,539	4,935,549
Lease liability		
Founder	635,935	-
Other Liabilities		
Founder	2,727	88,333
Other related party*	245	431

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

24. Commitments and contingencies

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

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

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

	31.12.2019	31.12.2018
Up to 1 year	-	188,760
1 year to 5 years	-	188,760
Over 5 years	-	-
Total	**-**	**377,520**

Management report – In accordance with the Law on accounting, reporting and auditing (article 7) the Group 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 Group has not fulfilled this obligation at the date of issue of the financial statements.

25. Events after the reporting period

In the end of 2019 year New Corona virus (COVID-19) was spread in China. Though cases were reported to the World Health Organization on 31 December 2019, its announcement of coronavirus as a global health emergency was not made until 31 January 2020 as Significant development and spread of the coronavirus did not take place until January 2020.

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

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

Evaluation of the effects and dangers of spreading of the new Coronavirus is difficult at this stage, as there is no comparative example of an event throughout history to base a substantive forecast on. Unpredictable environment is causing significant uncertainty in the financial market. One of the indicators of the said uncertainty is the exchange rate of GEL, the benchmark of which in relation to the leading currencies throughout the world is at its highest in history.

In March of the current year, the Group transferred all its employees to work remotely. Despite this, the group continues to operate continuously and offers its services to the clients through remote (electronic) channels. The management believes that the ability of the Group to remain a going concern is not under question, however assessing the full effects of the pandemic is premature and requires more time and observation.

26. Changes in accounting policies

The Group adopted IFRS 16 with a transition date of 1 January 2019. Adoption of new standard the way the Group applied it does not require to recognize the effect of change in the opening equity balances at the date of initial application (1 January 2019). Thus, Comperative figures of consolidated and separate financial statements are not restated. Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

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

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

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

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

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

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

Classification under IAS 17	**Right-of-use assets**	**Lease liabilities**
Operating leases	Space of administrative office: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 10%.

26. Change in accounting policies (Continued)

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

	01.01.2019
Assets	
Right-of-use assets	**740,338**
Liabilities	
Lease liabilities	**740,338**

The adoption of IFRS 16 had no impact on shareholder equity.

The adoption of IFRS 16 had the following impact on the income statement of the Group for 2019.

Rent (included in general and administrative expenses)	**(188,760)**
Depreciation and amortization	148,067
Interest expense	68,627
Total comprehensive income	**27,934**

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

	01.01.2019
Minimum operating lease commitment at 31 December 2018	**377,520**
Management's estimation about the lease term prolongation	566,280
Minimum operating lease commitment at 01 January 2019	**943,800**
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(203,462)
Lease liability as at 1 January 2019	**740,338**

27. Summary of significant accounting policies

Principal accounting policies applied in the preparation of these separate and consolidated financial statements are set out below.

27.1 Foreign currency translation

a) Functional and presentation currency

Items included in the separate and consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Separate and consolidated financial statements are presented in Georgian lari, which is the Group'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".

27. Summary of significant accounting policies (continued)

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

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

27.2 Property and equipment

The Group is accounting Property and Equipment according to IAS 16 – "Property, Plant and Equipment" requirements.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group 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)
Vehicels	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.

27.3 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 Group 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 Group is 10 Years.

27.4 Lease

Group as lessee

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

27. Summary of significant accounting policies (continued)

Identifying the lease

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

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

Initial recognition

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

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

Leases are recognized on the Group'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 Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

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

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group 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 Group 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 Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

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

When the Group 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.

27. Summary of significant accounting policies (continued)

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

Determination of lease term

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

Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Group. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group 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 Group 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.

27. Summary of significant accounting policies (continued)

27.5 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.

27.6 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 Group assesses its reinsurance assets for impairment on a annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group 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.

27.7 Receivables and payables related to insurance contracts

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

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

(i) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group 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.

27. Summary of significant accounting policies (continued)

27.8 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.

(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 Group 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 Group 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.

27.9 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).

27.10 Financial instruments

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

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

(a) Loans and receivables

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

27. Summary of significant accounting policies (continued)

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 Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the trade receivable and loan granted will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise insurance and reinsurance receivables, amount due from credit institutions 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 loans and receivables.

(c) Fair value through profit or loss

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

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

  (i) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term

  (ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

  (iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

  (i) If a contract contains one or more embedded derivatives. In this case an entity may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss unless:

  - The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or
  - It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost; or

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

  - It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases; or

27. Summary of significant accounting policies (continued)

- 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 Group does not have financial assets at fair value through profit or loss.

(d) Available-for-sale

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

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

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group'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 Group does not have financial liabilities at fair value through profit or loss.

(b) *Other financial liabilitie*s

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

Derecognition of financial assets

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

Derecognition of financial liabilities

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

Offsetting

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

27. Summary of significant accounting policies (continued)

27.11 Staff costs

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

27.12 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 Group 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.

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.

27.13 Events after the reporting period

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