Financial Statements and Independent Auditor's Report

INSURANCE GROUP OF GEORGIA JSC

31 December 2020

Contents

Independent auditor's report

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To the shareholder of INSURANCE GROUP OF GEORGIA JSC

Qualified Opinion

We have audited the financial statements of INSURANCE GROUP OF GEORGIA JSC (the "Company"), which comprise the statement of financial position as of 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As stated in the note 13, the Company recognized allowances for insurance premium receivables. During the audit, we could not obtain sufficient appropriate audit evidences whether the recognized allowances were calculated in accordance with the requirements of IFRS. Therefore, we were unable to determine whether the accrued impairment on insurance premium receivables contains material misstatements or not.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Management report

Management is responsible for the Management Reporting. The Management Reporting comprises the information about the activities of the Company, risk analysis, future plans and other matters as required by the Law of Georgia on Accounting, Reporting and Auditing.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

The Management Reporting has been prepared by the Company in Georgian language only and it is available together with Georgian-language financial statements.

Based on the work performed in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Reporting is prepared in accordance with the requirements of the Law of Georgia on Accounting, Reporting and Auditing and includes all the information required by the Law.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Vakhtang Tsabadze

Managing Partner

23 April 2021

STATEMENT OF COMPREHENSIVE INCOME

Georgian lari	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Gross premiums		11,519,359	8,675,253
Premiums ceded to reinsurers		(1,073,914)	(1,516,236)
Net premiums		**10,445,445**	**7,159,017**
Changes in unearned premium reserve		(99,333)	4,184,171
Changes in unearned premium reserve ceded to reinsurers		3,989	55,643
Net insurance revenue	4	**10,350,101**	**11,398,831**
Finance income from bank deposits		598,807	547,203
Commission income	5	317,333	443,889
TOTAL REVENUE		**11,266,241**	**12,389,923**
Insurance claims settled, paid	6	(7,820,102)	(10,303,618)
Claims ceded to reinsurers	6	592,496	1,186,831
Changes in other insurance reserves	10	(51,069)	318,841
Changes in other insurance reserves ceded to reinsurers	10	94,373	(110,697)
Claims handling expenses		(35,508)	(42,986)
Income from subrogation and recoveries		139,296	192,771
Net insurance claims		**(7,080,514)**	**(8,758,858)**
Commission expenses		-	(1,856)
General and administrative expenses	7	(2,004,754)	(2,046,570)
Impairment and write off expense		(1,009)	(266,702)
Interest expense		(13,924)	(48,139)
Other income and expenses, net		4,631	23,453
Foreign exchange gain/(loss)		60,871	(1,690)
PROFIT BEFORE TAX		**2,231,542**	**1,289,561**
Income tax expense	8	(308,054)	(230,582)
PROFIT FOR THE YEAR		**1,923,488**	**1,058,979**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,923,488**	**1,058,979**

Approved for issue and signed on behalf of the Management on 23 April 2021.

Archil Morchiladze
General Director

Vasil Gomurashvili
Financial Director

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 29.

STATEMENT OF FINANCIAL POSITION

Georgian lari	Notes	As of 31 December 2020	As of 31 December 2019
ASSETS			
Property and equipment	9	312,551	348,483
Reinsurance assets	10	668,378	570,017
Reinsurance receivables	11	759,711	1,590,319
Other assets	12	234,740	104,489
Insurance premium receivables	13	917,103	2,890,792
Amounts due from credit institutions	14	7,558,494	4,920,664
Cash and cash equivalents	14	675,639	388,167
TOTAL ASSETS		**11,126,616**	**10,812,931**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	3,180,100	3,180,100
Retained earnings		3,780,748	2,788,839
		6,960,848	**5,968,939**
Liabilities			
Liabilities from insurance contracts	10	2,564,151	2,413,749
Reinsurance premium payable	11	805,278	1,519,426
Deferred commission income from reinsurance contracts	5	75,890	69,584
Deferred income tax liability	8	33,838	36,323
Borrowings	16	86,969	180,911
Trade and other payables	17	224,708	176,656
Current income tax liability	8	374,934	447,343
		4,165,768	**4,843,992**
TOTAL EQUITY AND LIABILITIES		**11,126,616**	**10,812,931**

Approved for issue and signed on behalf of the Management on 23 April 2021.

Archil Morchiladze
General Director

Vasil Gomurashvili
Financial Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 29.

STATEMENT OF CHANGES IN EQUITY

Georgian lari	Share capital	Retained earnings	Total equity
Balance as at 31 December 2019	**3,180,100**	**2,788,839**	**5,968,939**
Profit for the year	-	1,923,488	1,923,488
Total comprehensive income for the year	-	1,923,488	1,923,488
Dividends paid/transactions with owner	-	(931,579)	(931,579)
Balance at 31 December 2020	**3,180,100**	**3,780,748**	**6,960,848**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 29.

STATEMENT OF CASH FLOWS

Georgian lari

	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities		
Receipts from customers	12,712,093	11,931,359
Payments to reinsurers	(54,280)	(92,126)
Payments for insurance claims, net of subrogation and recoveries	(7,628,497)	(10,099,094)
Other payments	(1,746,266)	(2,094,394)
Net cash flow from/(used in) operations	**3,283,050**	**(354,255)**
Cash flow from investing activities		
Purchase of property and equipment	(8,178)	(167,726)
Interest received	617,775	387,988
Net cash from investing activities	**609,597**	**220,262**
Cash flows from financing activities		
(Repayment of)/proceeds from borrowings, net	(77,867)	(345,000)
Dividends paid	(931,579)	-
Net cash used in financing activities	**(1,009,446)**	**(345,000)**
Net increase in cash and cash equivalents	2,883,201	(478,993)
Effect of exchange rate changes	60,871	(1,690)
Cash and cash equivalents at beginning of period	**5,108,267**	**5,588,950**
Cash and cash equivalents at end of period	**8,052,339**	**5,108,267**
Comprising:		
Cash and cash equivalents	675,639	388,167
Amounts due from credit institutions	7,558,494	4,920,664
Total per the statement of financial position	**8,234,133**	**5,308,831**
Less accrued interest	(181,794)	(200,564)
Total for the statement of cash flow purposes	**8,052,339**	**5,108,267**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 29.

1. General Information

Insurance Group of Georgia (the "Company") is a joint stock company domiciled in, and registered under the laws of Georgia. The Company was founded in May 2017 and provides different insurance services in Georgia (refer note 4).

The registered office of the Company is 4 Marijani street, Tbilisi.

The shareholders of the Company are:

Archil Morchiladze	51%
Clinic NewMedi Ltd	49%
	100%

100% of Clinic NewMedi Ltd is owned by Khatuna Morchiladze.

2. Summary of significant accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption that the Company operates on a going concern basis.

The financial statements comprise a statement of comprehensive income (profit or loss), a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes. The statement of financial position format is in order of liquidity.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis with the exception of certain financial instruments that are stated at present discounted value of future cash flows.

2.2.1. Application of new and amended standards

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by IASB that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted:

- Amendments to IFRS 4 titled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* – According to the amendments, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach'). Management believes that the application of IFRS 9 will not have a significant effect on the Company's financial statements.

- IFRS 17 *Insurance Contracts* - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2023 (earlier application permitted only if IFRS 9 and IFRS 15 also applied), requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The application of IFRS 17 might have a significant effect on the Company's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2.3. Recognition of insurance revenue and expenses

2.3.1. Gross premiums

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

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

2.3.2. Reinsurance premiums

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

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

2.3.3. Insurance claims

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

2.4. Property and equipment

On initial recognition, items of property and equipment are recognised at cost, which includes the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

After initial recognition, items of property and equipment are carried at cost less any accumulated depreciation and impairment losses.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows:

• Leasehold improvements	15% reducing balance
• Warehouse building	5% reducing balance
• Computers and other technical equipment	20% reducing balance
• Furniture and office equipment	20% reducing balance
• Other	20% reducing balance

Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.5. Right-of-use assets

The Company as a lessee

A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

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

Measurement and recognition of leases as a lessee

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

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

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

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

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been presented separately.

The Company as a lessor

As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

2.6. Intangible assets

Intangible assets acquired separately are shown at historical cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a reducing balance basis over the estimated useful lives of the intangible asset unless such lives are indefinite. Intangible assets with an indefinite useful life are tested for impairment annually. Other intangible assets are amortised using rate of 15%. Amortisation periods and methods are reviewed annually and adjusted if appropriate.

2.7. Impairment of non-financial assets

The Company assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in profit or loss.

2.8. Financial instruments

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, financial liability or equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are recognised initially at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial instrument, except for financial assets at fair value through profit or loss, which are initially measured at fair value, excluding transaction costs (which is recognised in profit or loss).

Subsequent measurement of financial assets depends on their classification on initial recognition. During the reporting period, the Company classified its financial assets as loans and receivables. They are subsequently measured at amortised cost using the effective interest rate method (except for short-term receivables where interest is immaterial), less provision for impairment. Indicators of impairment are assessed at each reporting date. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts. Typically trade and other receivables, bank balances and cash are classified in this category.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risk and rewards of ownership.

Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. During the reporting period, the Company did not classify any financial liabilities as held for trading or designated as at fair value through profit or loss. All the other financial liabilities are carried at amortised cost using the effective interest method. Items classified within trade and other payables are not usually remeasured, as the obligation is known with a high degree of certainty and settlement is short-term.

A financial liability is removed from the Company's statement of financial position only when the liability is discharged, cancelled or expired (ie extinguished). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

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

Equity instruments are contracts that give a residual interest in the net assets of the Company. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent those proceeds exceed the par value of the shares issued they are credited to a share premium account.

Dividends are recognised as liabilities when they are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity). Interim dividends are recognised when paid.

2.8.1. Assets related to insurance

- Insurance premium receivable is the sum of earned (past due) and unearned premiums receivable.
- Reinsurance receivable is the reinsurer's share in claims payable or paid and commissions receivable from reinsurers.
- Reinsurance assets represent the reinsurer's share in liabilities from insurance contracts.
- Subrogation receivable is the fair value of recoveries receivable from third parties to reimburse some or all costs of insurance claims.

2.8.2. Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

2.9. Liabilities from insurance contracts

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported (RBNS) or not (IBNR), together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. The ultimate cost of reserves is estimated by using a Chain ladder method. The main assumption underlying this technique is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed monthly development of past months and expected loss ratios.

NOTES TO THE FINANCIAL STATEMENTS

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

2.9.1. Liability adequacy test

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

2.10. Foreign currencies

Foreign currency monetary assets and liabilities are translated into the functional currency of the Company (Georgian Lari, "GEL") using the exchange rates officially published by the National Bank of Georgia at the reporting date:

	GEL / USD	GEL / EUR
Exchange rate as at 31 December 2020	3.28	4.02
Average rate for the year ended 31 December 2020	3.11	3.55
Exchange rate as at 31 December 2019	2.87	3.21
Average rate for the year ended 31 December 2019	2.82	3.16
Exchange rate as at 31 December 2018	2.68	3.07

Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

2.11. Income tax

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

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

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

Deferred tax assets are recognised only to the extent that the Company considers that it is probable (ie more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities, they relate to the same tax authority and the Company's intention is to settle the amounts on a net basis.

The tax expense for the period comprises current (15% of taxable income) and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

2.12. Provisions

Where, at the reporting date, the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that the Company will settle the obligation, a provision is made in the statement of financial position. Provisions are made using best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period they arise.

2.13. Equity

Equity instruments are contracts that give a residual interest in the net assets of the Company. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent those proceeds exceed the par value of the shares issued they are credited to a share premium account.

Dividends are recognised as liabilities when they are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the Shareholders' Annual General Meeting. Interim dividends are recognised when paid.

2.14. Joint arrangements: joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (in contrast to joint venture, where the parties have rights to the net assets of the arrangement). Where the Company is a joint operator in a joint operation, it recognises in relation to its interest in a joint operation: (a) its assets, including its share of any assets held jointly; (b) its liabilities, including its share of any liabilities incurred jointly; (c) its revenue from the sale of its share of the output arising from the joint operation; (d) its share of the revenue from the sale of the output by the joint operation; and (e) its expenses, including its share of any expenses incurred jointly.

3. Accounting estimates and judgments

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. There does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under general insurance contracts is the Company's most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims. For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position insurance liability. General insurance claims provisions are not discounted for the time value of money.

Impairment of insurance, reinsurance and subrogation receivables

The Company estimates impairment of receivables derived from insurance and reinsurance contracts. Factors that the Company considers whether a financial asset is impaired is its overdue status or bad credit rating of a debtor. 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 an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

Useful lives of property and equipment and intangible assets

Property and equipment and intangible assets are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

Income tax

The Company is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities.

4. Net insurance revenue

	2020			2019		
	Gross premiums	Premiums ceded to reinsurers	Net premiums	Gross premiums	Premiums ceded to reinsurers	Net premiums
Medical (Health)	8,497,208	-	8,497,208	4,172,274	-	4,172,274
MTPL (Compulsory)	1,202,900	-	1,202,900	2,261,523	-	2,261,523
Casco	1,359,716	(951,801)	407,915	1,776,507	(1,243,555)	532,952
MTPL	216,428	(81,658)	134,770	154,328	(91,737)	62,591
Third Party Liability	140,148	-	140,148	446	-	446
Suretyships	37,621	-	37,621	37,693	-	37,693
Personal Accident	33,161	(13,473)	19,688	61,916	(19,960)	41,956
Life	22,045	(18,738)	3,307	-	-	-
Property	19,069	(16,208)	2,861	33,076	(26,737)	6,339
Cargo	18,417	(15,654)	2,763	94,075	(78,509)	15,566
Travel	3,194	-	3,194	11,418	-	11,418
Aviation TPL	(7,439)	5,759	(1,680)	17,453	(13,511)	3,942
Aviation Transp. Means	(23,109)	17,859	(5,250)	54,544	(42,227)	12,317
	11,519,359	**(1,073,914)**	**10,445,445**	**8,675,253**	**(1,516,236)**	**7,159,017**
Changes in UPR	(99,333)	3,989	(95,344)	4,184,171	55,643	4,239,814
Net insurance revenue	**11,420,026**	**(1,069,925)**	**10,350,101**	**12,859,424**	**(1,460,593)**	**11,398,831**

The product called ‘life insurance’ is a short-term insurance contract, based on which a fixed amount is paid to a beneficiary when the insured person dies within the contract term, insurance contracts are issued for insuring bank loans given to the beneficiary and accordingly insurance contract is effective during the period of the loan agreement.

Compulsory insurance of Motor Third Party Liability refers to compulsory insurance of motor transport registered in foreign countries and moving in Georgia. It is administered by Compulsory Insurance Center (“CIC”, Non-Commercial Legal Entity). The Center started functioning on 1 March 2018 in accordance with Georgian legislation. Compulsory insurance of MTPL is a joint operation where 17 insurance companies operating in Georgia (including the Company) are joint operators and share the insurance revenue and risks equally.

Unearned premium reserve is disclosed in Note 10.

5. Commission income

	Year ended 31 December 2020	Year ended 31 December 2019
Gross commission income	323,639	463,852
Commission income deferred	(75,890)	(69,584)
Amortization of prior period income deferred	69,584	49,621
Commission income	**317,333**	**443,889**

Movement of deferred commission income:

	As of 31 December 2020	As of 31 December 2019
At 1 January	**69,584**	**49,621**
Gross commission income	323,639	463,852
Amortization	(317,333)	(443,889)
At 31 December	**75,890**	**69,584**

6. Insurance claims settled, paid

	2020			2019		
	Paid	Ceded to reinsurers	Net payment	Paid	Ceded to reinsurers	Net payment
Medical (Health)	6,881,703	-	6,881,703	8,487,021	-	8,487,021
Casco	718,323	(502,826)	215,497	1,540,945	(1,078,661)	462,284
MTPL	93,265	(62,478)	30,787	143,603	(100,522)	43,081
MTPL (Compulsory)	93,237	-	93,237	122,812	-	122,812
Life	26,000	(22,100)	3,900	-	-	-
Property	5,548	(4,716)	832	832	(665)	167
Suretyships	1,583	-	1,583	-	-	-
Cargo	443	(376)	67	8,021	(6,743)	1,278
Personal Accident	-	-	-	342	(240)	102
Travel	-	-	-	42	-	42
	7,820,102	**(592,496)**	**7,227,606**	**10,303,618**	**(1,186,831)**	**9,116,787**

7. General and administrative expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Employee compensation	1,198,425	1,254,074
CIC membership fee	175,832	260,396
Green cards (international insurance certificate)	127,034	-
Insurance State Supervision fee	114,200	128,594
Depreciation and amortisation	82,250	72,333
Rent	61,864	83,774
Audit and consulting	57,133	23,898
Communication and utilities	40,301	57,724
Marketing expenses	26,324	61,815
Other	121,391	103,962
	2,004,754	**2,046,570**

8. Income tax

Income tax expense:

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax	158,454	139,246
Income tax provision	152,085	86,388
Deferred income tax	(2,485)	4,948
	308,054	**230,582**

The income tax expense for the year can be reconciled to the profit for the year as follows:

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	Year ended 31 December 2020	Year ended 31 December 2019
Profit before tax	2,231,542	1,289,561
Tax thereon at 15%	**334,731**	**193,434**
Temporary differences	2,485	(4,948)
Permanent differences	(26,677)	37,148
Current income tax expense	**310,539**	**225,634**

Deferred tax liability comprises temporary differences attributable to:

	Year ended 31 December 2020	Year ended 31 December 2019
Property and equipment	46,883	52,272
Lease liability	(13,045)	(15,949)
	33,838	**36,323**

Current income tax payable:

	Year ended 31 December 2020	Year ended 31 December 2019
Current income tax	19,208	243,702
Income tax provision	355,726	203,641
	374,934	**447,343**

9. Property, Plant and Equipment

	Right-of-use asset	Leasehold imp.	Computers and other equip.	Furniture and office equip.	Vehicles	Other	Total
Cost							
At 1 January 2019	**-**	**30,892**	**81,045**	**23,718**	**12,500**	**36,694**	**184,849**
IFRS 16 Adj.	146,457	-	-	-	-	-	146,457
Additions	-	36,752	72,552	33,159	-	2,387	144,850
At 31 December 2019	**146,457**	**67,644**	**153,597**	**56,877**	**12,500**	**39,081**	**476,156**
Additions	-	6,037	3,578	2,515	34,063	-	46,193
Transfers (correction)	-	-	(10,238)	20,326	-	(10,088)	-
At 31 December 2020	**146,457**	**73,681**	**146,937**	**79,718**	**46,563**	**28,993**	**522,349**
Accum. depreciation							
At 1 January 2019	**-**	**5,118**	**10,626**	**3,142**	**3,750**	**1,467**	**24,103**
IFRS 16 Adj.	31,384	-	-	-	-	-	31,384
Depreciation	20,922	8,821	22,774	9,429	2,500	7,740	72,186
At 31 December 2019	**52,306**	**13,939**	**33,400**	**12,571**	**6,250**	**9,207**	**127,673**
Depreciation	20,922	11,017	24,003	19,173	5,339	1,671	82,125
Transfers (correction)	-	-	-	6,069	-	(6,069)	-
At 31 December 2020	**73,228**	**24,956**	**57,403**	**37,813**	**11,589**	**4,809**	**209,798**
Net carrying amount							
At 31 December 2019	**94,151**	**53,705**	**120,197**	**44,306**	**6,250**	**29,874**	**348,483**
At 31 December 2020	**73,229**	**48,725**	**89,534**	**41,905**	**34,974**	**24,184**	**312,551**

Depreciation has been charged entirely to general and administrative expenses.

10. Liabilities from insurance contracts and reinsurance assets

	As of 31 December 2020	As of 31 December 2019
Unearned premium provision	1,158,847	1,059,514
Provisions for claims reported by policyholders (RBNS)	1,137,948	1,121,453
Provisions for claims incurred but not reported (IBNR)	267,356	232,782
Liabilities from insurance contracts	**2,564,151**	**2,413,749**

Reinsurers' share in the liabilities from insurance contracts were as follows:

	As of 31 December 2020	As of 31 December 2019
Reinsurers’ share in UPR	244,912	240,923
Reinsurers’ share in provisions for RBNS	423,466	329,094
Reinsurers’ share in provisions for IBNR	-	-
Reinsurance assets	**668,378**	**570,017**

Liabilities from insurance contracts net of reinsurance were as follows:

	As of 31 December 2020	As of 31 December 2019
UPR	913,935	818,591
Provisions for RBNS	714,482	792,359
Provisions for IBNR	267,356	232,782
Net liabilities from insurance contracts	**1,895,773**	**1,843,732**

Analysis of movements in liabilities from insurance contracts and reinsurance assets were as follows.

(a) Provision for unearned premium (UPR):

	As of 31 December 2020	As of 31 December 2019
Balance at 1 January	**1,059,514**	**5,243,685**
Gross written premium	11,519,359	8,675,253
Gross earned premium	(11,420,026)	(12,859,424)
Balance at 31 December	**1,158,847**	**1,059,514**

Reinsurer’s share represents as follows:

	As of 31 December 2020	As of 31 December 2019
Balance at 1 January	**240,923**	**185,280**
Reinsurer's share of gross written premium	1,073,914	1,516,236
Gross reinsurer's earned premium	(1,069,925)	(1,460,593)
Balance at 31 December	**244,912**	**240,923**

Unrealized premium provision(UPR), net, represents as follows:

	As of 31 December 2020	As of 31 December 2019
Balance at 1 January	**818,591**	**5,058,405**
Net written premium	10,445,445	7,159,017
Net earned premium	(10,350,101)	(11,398,831)
Balance at 31 December	**913,935**	**818,591**

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(b) Provisions for claims (RBNS and IBNR):

	As of 31 December 2020	As of 31 December 2019
Balance of reported but not settled claims at 1 January	1,121,453	1,333,954
Balance of incurred but not reported at 1 January	232,782	339,122
Total provisions for claims at 1 January	**1,354,235**	**1,673,076**
Claims incurred during the period	7,871,171	9,984,777
Claims paid during the period	(7,820,102)	(10,303,618)
Changes in other insurance reserves	**51,069**	**(318,841)**
Balance of reported but not settled claims at 31 December	1,137,948	1,121,453
Balance of incurred but not reported at 31 December	267,356	232,782
Total provisions for claims at 31 December	**1,405,304**	**1,354,235**

Reinsurers' share in RBNS:

	As of 31 December 2020	As of 31 December 2019
Balance of reported but not settled claims at 1 January	329,094	439,791
Balance of incurred but not reported at 1 January	-	-
Total provisions for claims at 1 January	**329,094**	**439,791**
Claims incurred during the period	686,869	1,076,134
Claims paid during the period	(592,496)	(1,186,831)
Changes in other insurance reserves	**94,373**	**(110,697)**
Balance of reported but not settled claims at 31 December	423,467	329,094
Balance of incurred but not reported at 31 December	-	-
Total provisions for claims at 31 December	**423,467**	**329,094**

Net RBNS and IBNR:

	As of 31 December 2020	As of 31 December 2019
Balance of reported but not settled claims at 1 January	792,359	894,163
Balance of incurred but not reported at 1 January	232,782	339,122
Total provisions for claims at 1 January	**1,025,141**	**1,233,285**
Claims incurred during the period	7,184,302	8,908,643
Claims paid during the period	(7,227,606)	(9,116,787)
Changes in other insurance reserves	**(43,304)**	**(208,144)**
Balance of reported but not settled claims at 31 December	714,481	792,359
Balance of incurred but not reported at 31 December	267,356	232,782
Total provisions for claims at 31 December	**981,837**	**1,025,141**

11. Reinsurance receivables

	As of 31 December 2020	As of 31 December 2019
Reinsurance premium payable	(805,278)	(1,519,426)
Reinsurer's share in claims paid	621,844	1,014,200
Commissions receivable	137,867	576,119
Net (payable to) / receivable from reinsurers	**(45,567)**	**70,893**

12. Other assets

	As of 31 December 2020	As of 31 December 2019
Subrogation receivable, net of impairment	83,010	40,241
Prepayments	106,017	42,518
Inventory	34,734	10,798
Intangible assets, net of amortisation	3,807	3,932
Other	7,172	7,000
	234,740	**104,489**

13. Insurance premium receivables

	As of 31 December 2020	As of 31 December 2019
Insurance premium receivable	1,495,814	2,974,872
Allowance for impairment	(568,711)	(84,080)
Net insurance premium receivable	**917,103**	**2,890,792**

There is no material difference between the fair value of insurance receivables and their carrying amount.

14. Cash and cash equivalents and amounts due from credit institutions

	As of 31 December 2020	As of 31 December 2019
Cash on current accounts with banks	675,453	373,116
Cash on hand	186	15,051
Cash and cash equivalents	**675,639**	**388,167**
Short term deposit at Finca Bank Georgia JSC	3,800,100	3,300,100
Short term deposit at TBC Bank JSC	-	100,000
Long term deposit at TBC Bank JSC	2,621,280	1,020,000
Long term deposit at Bank of Georgia JSC	955,320	300,000
Accrued interest	181,794	200,564
Amounts due from credit institutions	**7,558,494**	**4,920,664**
Total cash and amounts due from credit institutions	**8,234,133**	**5,308,831**

There is no material difference between the fair value and the carrying amount of cash and cash equivalents and amounts due from credit institutions.

Short term deposits include restricted cash placed on bank accounts to conform to the requirement of regulatory legislation. The amount of mandatory reserves is depended on the amount of estimated outstanding claims (insurance liabilities).

15. Share capital

Share capital consists of the following amount of ordinary shares with a nominal value of GEL 1 each:

	As of 31 December 2020	As of 31 December 2019
Authorized ordinary shares	4,200,100	4,200,100
Unpaid	(1,020,000)	(1,020,000)
Fully paid share capital	**3,180,100**	**3,180,100**

Shareholders are presented in Note 1 *General Information*. For the requirements of regulatory legislation regarding capital refer to Note 18 *Risk Management*, paragraph of Capital Management.

16. Borrowings

	As of 31 December 2020	As of 31 December 2019
Lease liability to the shareholder (10.9%)	86,969	106,327
Short-term loan from the shareholder (12%)	-	74,584
	86,969	**180,911**

17. Trade and other payables

	As of 31 December 2020	As of 31 December 2019
Payables to suppliers	8,675	37,050
Payable to the State Supervisor	114,201	28,157
Advances received (deposits to secure existing suretyships)	22,760	52,004
Other advances received	-	47,325
Payables to employees	71,877	8,196
Other payables	7,195	3,924
	224,708	**176,656**

The difference between the fair value and book value of trade payables are not material.

18. Risk management

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

Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with terms of reference for the executive management board. Management board delegates to respective members of senior management responsibilities for overseeing compliance with established risk management policies.

The management board approves the Company risk management policies and meets regularly to approve on any commercial, regulatory and own organizational requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital management objectives, policies and approach

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

The capital management objectives are:

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

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

The Company's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the regulatory directives.

Approach to capital management

The Company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated manner, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company.

The Company has had no significant changes in its policies and processes to its capital structure during the past year from previous year.

Capital Management

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 throughout the period should be not less than GEL 2,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances. The minimum capital requirement is GEL 4,200 thousand for the period from 31 December 2018 to 31 December 2020 and GEL 7,200 thousand thereafter.

The Company was in compliance with the capital requirements of ISSSG as at 31 December 2020.

18.1. 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 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. 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.

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

Claims on insurance contracts are payable on a claims-occurrence basis. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the insured sector and the risk management procedures they adopted. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims reserve, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR and a reserve for reported claims not yet settled.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available.

At the end of each reporting period the Company assess whether its recognized insurance liabilities are adequate. The Company determines whether the amount of recognized insurance liabilities is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. If it is less, the insurer will recognize the entire difference in profit or loss and increase the carrying amount of the relevant insurance liabilities.

18.2. Financial risk

In performing its operating, investing and financing activities, the Company is exposed to the following financial risks:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Company.
- Liquidity risk: the risk that the Company may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.

- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. However, this risk was immaterial for the Company in the reporting period.

All financial risk management activities are carried out on a prudent and consistent basis and following the best market practices.

The following table summarises the carrying amount of financial assets and financial liabilities recorded by category.

Financial assets	**As of 31 December 2020**	**As of 31 December 2019**
Cash and cash equivalents	675,639	388,167
Amounts due from credit institutions	7,558,494	4,920,664
Insurance premium receivable	917,103	2,890,792
Reinsurance receivables	759,711	1,590,319
Subrogation receivable (other assets)	83,010	40,241
	9,993,957	**9,830,183**

Financial liabilities	**As of 31 December 2020**	**As of 31 December 2019**
Liabilities from insurance contracts (excluding UPR, Note 10)	981,838	1,025,141
Reinsurance premium payable	805,278	1,519,426
Borrowings and lease liability	86,969	180,911
Trade and other payables	224,708	176,656
Current income tax liability	374,934	447,343
	2,473,727	**3,349,477**

18.2.1. Credit risk

The Company controls its exposure to credit risk by dealing only with creditworthy counterparties.

The maximum credit risk to which the Company is exposed is summarised in the following table:

	As of 31 December 2020	**As of 31 December 2019**
Cash on current accounts with banks	675,453	373,116
Amounts due from credit institutions	7,558,494	4,920,664
Insurance receivables	917,103	2,890,792
Reinsurance receivables	759,711	1,590,319
Subrogation receivable (other assets)	83,010	40,241
	9,993,771	**9,815,132**

18.2.2. Foreign currency risk

Exposures to currency exchange rates arise from the Company's bank balances and insurance contracts in US dollar.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Georgian lari at the closing rate:

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Georgian lari	USD
31 December 2020	
Financial assets	
Insurance receivables	556,526
Cash and bank deposits	3,358,436
	3,914,962
Financial liabilities	
Borrowings	-
Trade and other payables	37,543
	37,543
Net position	3,877,419

Georgian lari	USD
31 December 2019	
Financial assets	
Insurance receivables	650,000
Cash and bank deposits	5,000
	655,000
Financial liabilities	
Borrowings	-
Trade and other payables	20,808
	20,808
Net position	634,192

The following table details the Company's sensitivity to a 15% (2019: 15%) increase and decrease in Georgian lari against US dollar. 15% (2019: 15%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 15% (2019: 15%) change in foreign currency rates.

Georgian lari	US dollar impact	
	2020	2019
Profit or loss	(581,613)	(95,128)

18.2.3. Liquidity risk - Financial liabilities' maturity analysis

The Company manages liquidity risk on the basis of expected maturity dates. As at the reporting date all the financial liabilities were current, except for the following:

	Less than 1 year	1 year to 5 year	Over 5 years	Total
Borrowings and lease liability	21,577	65,392	-	86,969
BALANCE AT 31 DECEMBER 2020	**21,577**	**65,392**	**-**	**86,969**
Borrowings and lease liability	93,942	86,969	-	180,911
BALANCE AT 31 DECEMBER 2019	**93,942**	**86,969**	**-**	**180,911**

At present, the Company expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments, the Company expects the operating activity to generate sufficient cash inflows.

19. Fair value measurement

The Company provides an analysis of its assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. These Levels are described below:

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - fair value measurements are those derived from 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); and
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19.1 Fair value measurement of financial instruments

The Company does not have financial assets or financial liabilities measured at fair value on a recurring basis as of 31 December 2020 and 31 December 2019.

Management believes that fair values of financial assets and financial liabilities measured at amortized cost approximate their carrying amounts.

Fair value has been determined by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise, most significant input is the discount rate. Estimated fair values of the above financial assets and financial liabilities are classified within Level 3 of the fair value hierarchy.

20. Related parties

	Year ended 31 December 2020	Year ended 31 December 2019
Amount of transactions:		
Medical (health) insurance claims paid to shareholder	1,135,591	1,322,215

	As of 31 December 2020	As of 31 December 2019
Balance:		
Borrowings and lease liability from shareholder	86,969	180,911

The above transactions were made on the same terms as equivalent transactions with unrelated parties.

Compensation of key management personnel was as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Key management compensation	345,238	360,918

21. Events after the statement of financial position date

These financial statements were authorised for issue by the management on 23 April 2021.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date.