INSURANCE GROUP OF GEORGIA JSC

Financial statements

For the year ended 31 December 2019

Together with Independent Auditor's Report

CONTENTS

These financial statements are presented in Georgian Lari ("GEL")

Independent Auditor's Report

To the Shareholders and the Management of "Insurance Group of Georgia" Joint Stock Company

Opinion

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

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

Basis for Opinion

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

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") 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 these requirements and the IESBA Code.

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

Significant Matter – Events After the Reporting Period

We draw attention to note 20 of the financial statements, which describes the events after the reporting period and before approval of the financial statements. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

Nexia TA

Member of Nexia International

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 ISA 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 ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

Malkhaz Ujmajuridze

For and on behalf of Nexia TA LLC

10 April, 2020

Tbilisi, Georgia

405040682 LLC NEXIA TA

Nexia TA

Closer to you

12, Aleksidze str. | King David Business Center | Tbilisi 0171 Georgia | ალექსიძის ქ.12 | ბიზნეს ცენტრი კინგ დევიდი | თბილისი 0171 საქართველო | T: +995 32 25 606 25 | info@nexia.ge | www.nexia.ge

(In thousands of Georgian Lari)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018
Gross premiums		8,675,253	14,542,221
Premiums ceded to reinsurers		(1,516,236)	(2,324,365)
Net premiums		**7,159,017**	**12,217,856**
Changes in unearned premium reserve		4,184,171	(1,414,955)
Changes in unearned premium reserve ceded to reinsurers		55,643	170,280
Net insurance revenue	4	**11,398,831**	**10,973,181**
Interest income from bank deposits		547,203	389,742
Commission income	5	443,889	744,736
TOTAL REVENUE		**12,389,923**	**12,107,659**
Insurance claims paid	6	(10,303,618)	(8,999,126)
Claims ceded to reinsurers	6	1,186,831	1,164,842
Changes in other insurance reserves	10	318,841	(1,333,294)
Changes in other insurance reserves ceded to reinsurers	10	(110,697)	439,791
Claims handling expenses		(42,986)	(61,599)
Income from subrogation and recoveries		192,771	165,447
Net insurance claims		**(8,758,858)**	**(8,623,939)**
Commission expenses		(1,856)	(37,689)
General and administrative expenses	7	(2,046,570)	(1,844,382)
Impairment and write off expense		(266,702)	-
Interest expense		(48,139)	(4,417)
Other income and expenses, net		23,453	30,843
Net foreign exchange loss		(1,690)	(1,789)
PROFIT BEFORE TAX		**1,289,561**	**1,626,286**
Income tax expense	8	(230,582)	(243,943)
PROFIT FOR THE YEAR		**1,058,979**	**1,382,343**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,058,979**	**1,382,343**

Approved for issue and signed on behalf of the Management on 10 April 2020.

Archil Morchiladze
General Director

Vasil Gomurashvili
Financial Director

The notes on pages 7-23 are an integral part of these financial statements

(In thousands of Georgian Lari)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019	2018
ASSETS			
Property and equipment	9	348,483	160,746
Reinsurance assets	10	570,017	625,071
Reinsurance receivables	11	1,590,319	1,961,965
Other assets	12	104,489	205,213
Insurance premium receivable	13	2,890,792	6,355,107
Amounts due from credit institutions	14	4,920,664	4,342,450
Cash and cash equivalents	14	388,167	1,288,850
TOTAL ASSETS		**10,812,931**	**14,939,402**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	3,180,100	3,180,100
Retained earnings		2,788,839	1,738,482
		5,968,939	**4,918,582**
Liabilities			
Liabilities from insurance contracts	10	2,413,749	6,916,761
Reinsurance premium payable	11	1,519,426	2,253,851
Deferred commission income from reinsurance contracts	5	69,584	49,621
Deferred income tax liability	8	36,323	31,375
Borrowings	16	180,911	384,077
Trade and other payables	17	176,656	180,471
Current income tax liability	8	447,343	204,664
		4,843,992	**10,020,820**
TOTAL EQUITY AND LIABILITIES		**10,812,931**	**14,939,402**

Approved for issue and signed on behalf of the Management on 10 April 2020.

Archil Morchiladze
General Director

Vasil Gomurashvili
Financial Director

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(In thousands of Georgian Lari)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital (note15)	Retained earnings	Total equity
Balance at 31 December 2017	**2,200,100**	**356,139**	**2,556,239**
Issue of ordinary shares	980,000	-	980,000
Total comprehensive income for the year	-	1,382,343	1,382,343
Balance as at 31 December 2018	**3,180,100**	**1,738,482**	**4,918,582**
Adjustment for change in accounting policy (note 2.2)	-	(8,622)	(8,622)
Balance at 1 January 2019 - adjusted	**3,180,100**	**1,729,860**	**4,909,960**
Total comprehensive income for the year	-	1,058,979	1,058,979
Balance at 31 December 2019	**3,180,100**	**2,788,839**	**5,968,939**

Approved for issue and signed on behalf of the Management on 10 April 2020.

Archil Morchiladze
General Director

Vasil Gomurashvili
Financial Director

The notes on page 7-23 are integral part of these financial statements

(In thousands of Georgian Lari)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
Cash flows from operating activities		
Receipts from customers	11,931,359	11,813,470
Payments to reinsurers	(92,126)	(42,256)
Payments for insurance claims, net of subrogation and recoveries	(10,099,094)	(8,885,771)
Other payments	(2,094,394)	(1,623,031)
Net cash flow (used in) / generated from operations	**(354,255)**	**1,262,412**
Cash flow from investing activities		
Purchase of property, plant and equipment	(167,726)	(127,555)
Interest received	387,988	363,064
Net cash from investing activities	**220,262**	**235,509**
Cash flows from financing activities		
Proceeds from issue of shares	-	980,000
proceeds from borrowings	-	379,660
Repayment of borrowings	(345,000)	-
Net cash from / (used in) financing activities	**(345,000)**	**1,359,660**
Net increase in cash and cash equivalents	(478,993)	2,857,581
Effect of exchange rate changes	(1,690)	(1,789)
Cash and cash equivalents at beginning of the year	**5,588,950**	**2,733,158**
Cash and cash equivalents at end of the year	**5,108,267**	**5,588,950**
Comprising:		
Cash and cash equivalents	388,167	1,288,850
Amounts due from credit institutions	4,920,664	4,342,450
Total per the statement of financial position	**5,308,831**	**5,631,300**
Less accrued interest	(200,564)	(42,350)
Total for the statement of cash flow purposes	**5,108,267**	**5,588,950**

Approved for issue and signed on behalf of the Management on 10 April 2020.

Archil Morchiladze
General Director

Vasil Gomurashvili
Financial Director

The notes on page 7-23 are in integral part of these financial statements

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS

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 with the principal activity to provide different insurance services in Georgia (see Note 3). The registered office of the Company is 4 Marijani street, Tbilisi.

The shareholders of the Company as at 31 December 2019 and 2018 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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2019.

The financial statements comprise a statement of profit or loss and other comprehensive income, 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.

The financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below.

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

Going Concern

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

Insurance industry has faced challenges as a result of spread of the COVID 19 around the world and in Georgia. The Company has assessed the future perspectives (see note 20) in the current situation and, as a result, the Company's management believes that there is no doubt about the Company's ability to continue as a going concern for at least the following 12 months after reporting period.

2.2. 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. This refers to IFRS 9 *Financial Instruments* – the Company used temporary exemption of its adoption (see below).

The following Accounting Standards and Interpretations are most relevant to the Company:

- IFRS 16 *Leases* - The Company has adopted IFRS 16 from 1 January 2019. The standard replaces IAS 17 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17.

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.2. Application of new and amended standards (continued)

However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities

and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

Right-of-use asset (IFRS 16)	115,073
Lease liability (IFRS 16)	(123,695)
Reduction in opening retained profits as at 1 January 2019	(8,622)

When adopting IFRS 16 from 1 January 2019, the company has applied the following practical expedients:

- accounting for leases with a remaining lease term of 12 months as at 1 January 2019 as short-term leases;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

- 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').

- IFRS 17 *Insurance Contracts* - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2021 (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.

2.3. Insurance revenue and expenses recognition

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 (Note 2.8).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

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, plant and equipment

On initial recognition, items of property, plant 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, plant 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, plant 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

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, If necessary, appropriate adjustments are made. Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.8. Financial instruments

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an 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

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

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. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. IBNR is calculated at the reporting date in accordance with the state regulation: 5% of annual gross premiums for all types of insurance contracts other than medical (health) and 2% of annual gross premiums for medical (health) insurance. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

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:

	USD / GEL	EUR / GEL
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
Average rate for the year ended 31 December 2018	2.53	2.99
Exchange rate as at 31 December 2017	2.59	3.1

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

2.11. Income tax (continued)

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 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 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.

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Net insurance revenue

Net insurance revenue for the years ended December 31, 2019 and 2018 comprise:

	2019			2018		
	Gross premiums	**Premiums ceded to reinsurers**	**Net premiums**	**Gross premiums**	**Premiums ceded to reinsurers**	**Net premiums**
Medical (Health)	4,172,274	-	4,172,274	9,059,030	-	9,059,030
MTPL (Compulsory)	2,261,523	-	2,261,523	1,859,142	-	1,859,142
Casco	1,776,507	(1,243,555)	532,952	3,077,284	(1,974,473)	1,102,811
MTPL	154,328	(91,737)	62,591	201,996	(139,437)	62,559
Cargo	94,075	(78,509)	15,566	30,634	(22,502)	8,132
Personal Accident	61,916	(19,960)	41,956	75,376	(46,586)	28,790
Aviation Transp. Means	54,544	(42,227)	12,317	59,918	(42,574)	17,344
Suretyships	37,693	-	37,693	38,344	-	38,344
Property	33,076	(26,737)	6,339	106,991	(85,593)	21,398
Aviation TPL	17,453	(13,511)	3,942	18,577	(13,200)	5,377
Travel	11,418	-	11,418	12,229	-	12,229
Third Party Liability	446	-	446	2,700	-	2,700
	8,675,253	**(1,516,236)**	**7,159,017**	**14,542,221**	**(2,324,365)**	**12,217,856**
Changes in unearned premium reserves	4,184,171	55,643	4,239,814	(1,414,955)	170,280	(1,244,675)
Net insurance revenue	**12,859,424**	**(1,460,593)**	**11,398,831**	**13,127,266**	**(2,154,085)**	**10,973,181**

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

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

	2019	**2018**
Gross commission income	463,852	788,917
Commission income deferred	(69,584)	(49,621)
Amortization of prior period income deferred	49,621	5,440
Commission income	**443,889**	**744,736**

Movement of deferred commission income:

	2019	**2018**
At 1 January	**49,621**	**5,440**
Gross commission income	463,852	788,917
Amortization	(443,889)	(744,736)
At 31 December	**69,584**	**49,621**

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Insurance claims paid

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

	2019			2018		
	Paid	**Ceded to reinsurers**	**Net payment**	**Paid**	**Ceded to reinsurers**	**Net payment**
Medical (Health)	8,487,021	-	8,487,021	7,163,027	-	7,163,027
Casco	1,540,945	(1,078,661)	462,284	1,627,334	(1,063,483)	563,851
MTPL	143,603	(100,522)	43,081	143,156	(100,209)	42,947
MTPL (Compulsory)	122,812	-	122,812	59,776	-	59,776
Cargo	8,021	(6,743)	1,278	-	-	-
Property	832	(665)	167	-	-	-
Personal Accident	342	(240)	102	1,641	(1,150)	491
Travel	42	-	42	42	-	42
Suretyships	-	-	-	4,150	-	4,150
	10,303,618	**(1,186,831)**	**9,116,787**	**8,999,126**	**(1,164,842)**	**7,834,284**

7. General and administrative expenses

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

	2019	**2018**
Employee compensation	1,254,074	1,099,752
CIC membership fee	260,396	214,283
Insurance State Supervision fee	128,594	131,273
Rent	83,774	69,082
Depreciation and amortisation	72,333	21,394
Marketing expenses	61,815	50,333
Office expenses	28,001	36,008
Communication and utilities	57,724	33,905
Other	99,859	188,352
	2,046,570	**1,844,382**

Audit fee for FY 2019 totalized GEL 10,000 (2018: 10,100).

8. Income tax

Income tax for the years ended December 31, 2019 and 2018 comprise:

Income tax expense:

	2019	**2018**
Current income tax	139,246	135,277
Income tax provision	86,388	77,291
Deferred income tax	4,948	31,375
	230,582	**243,943**

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Income tax (continued)

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

	2019	2018
Profit before tax	1,289,561	1,626,286
Tax thereon at 15%	**193,434**	**243,943**
Temporary differences	(4,948)	(31,375)
Permanent differences	37,148	-
Current income tax expense	**225,634**	**212,568**
	17%	13%

Deferred tax liability comprises temporary differences attributable to:

	2019	2018
Property and equipment	52,272	14,604
Subrogation receivable	-	16,771
Lease liability	(15,949)	-
	36,323	**31,375**

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. For insurance companies the law should have been effective for tax periods starting after 1 January 2019. However according to the latest amendments, it has been postponed for 4 years. Therefore, the Company recognized deferred income taxes.

Current income tax payable:

	2019	2018
Current income tax	243,702	87,411
Income tax provision	203,641	117,253
	447,343	**204,664**

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Property and Equipment

Property and Equipment as of December 31, 2019 and 2018 comprise:

	Right-of-use asset	Leasehold imp.	Computers and other equip.	Furniture and office equip.	Other	Total
Cost						
At 1 January 2018	**-**	**30,362**	**14,287**	**8,741**	**12,880**	**66,270**
Additions	-	530	66,758	14,977	36,314	**118,579**
At 31 December 2018	**-**	**30,892**	**81,045**	**23,718**	**49,194**	**184,849**
IFRS16 Adj. (note 2.2)	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**	**51,581**	**476,156**
Accumulated depreciation						
At 1 January 2018	**-**	**537**	**924**	**158**	**1,262**	**2,881**
Depreciation	-	4,581	9,702	2,984	3,955	**21,222**
At 31 December 2018	**-**	**5,118**	**10,626**	**3,142**	**5,217**	**24,103**
IFRS16 Adj. (note 2.2)	31,384	-	-	-	-	**31,384**
Depreciation	20,922	8,821	22,774	9,429	10,240	**72,186**
At 31 December 2019	**52,306**	**13,939**	**33,400**	**12,571**	**15,457**	**127,673**
Net carrying amount						
At 31 December 2018	**-**	**25,774**	**70,419**	**20,576**	**43,977**	**160,746**
At 31 December 2019	**94,151**	**53,705**	**120,197**	**44,306**	**36,124**	**348,483**

Depreciation has been charged entirely to general and administrative expenses.

10. Liabilities from insurance contracts and reinsurance assets

Liabilities from insurance contracts and reinsurance assets as of December 31, 2019 and 2018 comprise:

	2019	**2018**
Unearned premium provision	1,059,514	5,243,685
Provisions for claims reported by policyholders (RBNS)	1,121,453	1,333,954
Provisions for claims incurred but not reported (IBNR)	232,782	339,122
Liabilities from insurance contracts	**2,413,749**	**6,916,761**

Reinsurers' share in the liabilities from insurance contracts were as follows:	**2019**	**2018**
Reinsurers' share in UPR	240,923	185,280
Reinsurers' share in provisions for RBNS	329,094	439,791
Reinsurers' share in provisions for IBNR	-	-
Reinsurance assets	**570,017**	**625,071**

Liabilities from insurance contracts net of reinsurance were as follows:	**2019**	**2018**
UPR	818,591	5,058,405
Provisions for RBNS	792,359	894,163
Provisions for IBNR	232,782	339,122
Net liabilities from insurance contracts	**1,843,732**	**6,291,690**

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Liabilities from insurance contracts and reinsurance assets (continued)

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

(a) Provision for unearned premium (UPR):

	2019	2018
Balance at 1 January	**5,243,685**	**3,828,730**
Gross written premium	8,675,253	14,542,221
Gross earned premium	(12,859,424)	(13,127,266)
Balance at 31 December	**1,059,514**	**5,243,685**

Reinsurer's share:

	2019	2018
Balance at 1 January	**185,280**	**15,000**
Reinsurer's share of gross written premium	1,516,236	2,324,365
Gross reinsurer's earned premium	(1,460,593)	(2,154,085)
Balance at 31 December	**240,923**	**185,280**

UPR, net:

	2019	2018
Balance at 1 January	**5,058,405**	**3,813,730**
Net written premium	7,159,017	12,217,856
Net earned premium	(11,398,831)	(10,973,181)
Balance at 31 December	**818,591**	**5,058,405**

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

	2019	2018
Balance of reported but not settled claims at 1 January	1,333,954	234,357
Balance of incurred but not reported at 1 January	339,122	105,425
Total provisions for claims at 1 January	**1,673,076**	**339,782**
Claims incurred during the period	9,984,777	10,332,420
Claims paid during the period	(10,303,618)	(8,999,126)
Changes in other insurance reserves	**(318,841)**	**1,333,294**
Balance of reported but not settled claims at 31 December	1,121,453	1,333,954
Balance of incurred but not reported at 31 December	232,782	339,122
Total provisions for claims at 31 December	**1,354,235**	**1,673,076**

Reinsurers' share in RBNS:

	2019	2018
Balance of reported but not settled claims at 1 January	439,791	-
Balance of incurred but not reported at 1 January	-	-
Total provisions for claims at 1 January	**439,791**	**-**

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Liabilities from insurance contracts and reinsurance assets (continued)

Claims incurred during the period	1,076,134	1,604,633
Claims paid during the period	(1,186,831)	(1,164,842)
Changes in other insurance reserves	**(110,697)**	**439,791**
Balance of reported but not settled claims at 31 December	329,094	439,791
Balance of incurred but not reported at 31 December	-	-
Total provisions for claims at 31 December	**329,094**	**439,791**

Net RBNS and IBNR:

	2019	2018
Balance of reported but not settled claims at 1 January	894,163	234,357
Balance of incurred but not reported at 1 January	339,122	105,425
Total provisions for claims at 1 January	**1,233,285**	**339,782**
Claims incurred during the period	8,908,643	8,727,787
Claims paid during the period	(9,116,787)	(7,834,284)
Changes in other insurance reserves	**(208,144)**	**893,503**
Balance of reported but not settled claims at 31 December	792,359	894,163
Balance of incurred but not reported at 31 December	232,782	339,122
Total provisions for claims at 31 December	**1,025,141**	**1,233,285**

11. Reinsurance

Reinsurance as of December 31, 2019 and 2018 comprise:

	2019	2018
Reinsurance premium payable	(1,519,426)	(2,253,851)
Reinsurer's share in claims paid	1,014,200	1,164,842
Commissions receivable	576,119	797,123
Net receivable from / (payable to) reinsurers	**70,893**	**(291,886)**

12. Other assets

Other assets as of December 31, 2019 and 2018 comprise:

	2019	2018
Subrogation receivable, net of impairment	40,241	111,804
Prepayments	42,518	83,231
Inventory	10,798	5,021
Intangible assets, net of amortisation	3,932	3,301
Other	7,000	1,856
Total other assets	**104,489**	**205,213**

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Insurance premium receivable

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

	2019	2018
Medical insurance premium receivable from Georgian Railway JSC	789,499	4,125,807
Medical insurance premium receivable from the Ministry of Corrections	193,475	267,710
Medical insurance premium receivable from Tbilisi State University	124,480	-
Medical insurance premium receivable from Tbilisi Transport Company Ltd	1,404	1,169,276
Other medical insurance premium receivables	129,363	12,232
Casco insurance premium receivable from Patrol Police Department	899,693	560,179
Motor Third Party Liability (Compulsory)	207,876	140,677
Other non-medical insurance premium receivables	629,082	79,226
Allowance for impairment	(84,080)	-
Net insurance premium receivable	**2,890,792**	**6,355,107**

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

Cash and cash equivalents and amounts due from credit institutions as of December 31, 2019 and 2018 comprise:

	2019	2018
Cash on current accounts with banks	373,116	1,286,951
Cash on hand	15,051	1,899
Cash and cash equivalents	**388,167**	**1,288,850**
Short term deposit at Finca Bank Georgia JSC	3,300,100	3,180,100
Short term deposit at TBC Bank JSC	100,000	100,000
Long term deposit at TBC Bank JSC	1,020,000	1,020,000
Long term deposit at Bank of Georgia JSC	300,000	-
Accrued interest	200,564	42,350
Amounts due from credit institutions	**4,920,664**	**4,342,450**
Total cash and amounts due from credit institutions	**5,308,831**	**5,631,300**

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:

	2019	2018
Authorized ordinary shares	4,200,100	4,200,100
Less: 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.

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Borrowings

Borrowings as of December 31, 2019 and 2018 comprise:

	2019	2018
Lease liability to the shareholder (10.9%)	106,327	0
Short-term loan from the shareholder (12%)	74,584	384,077
Total borrowings	**180,911**	**384,077**

17. Trade and other payables

Trade and other payables as of December 31, 2019 and 2018 comprise:

	2019	2018
Payables to suppliers	65,207	51,506
Payable to the State Supervisor	-	115,629
Advances received (deposits to secure existing suretyships)	52,004	-
Other advances received	47,325	-
Other payables	12,120	13,336
Total trade and other payables	**176,656**	**180,471**

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Risk management (continued)

- 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 2019.

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.

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18.1. Insurance risk (continued)

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	**2019**	**2018**
Cash and cash equivalents	388,167	1,288,850
Amounts due from credit institutions	4,920,664	4,342,450
Insurance premium receivable	2,890,792	6,355,107
Reinsurance receivables	1,590,319	1,961,965
Subrogation receivable (other assets)	40,241	111,804
	9,830,183	**14,060,176**

Financial liabilities	**2019**	**2018**
Liabilities from insurance contracts (net RBNS and IBNR, Note 10)	1,025,141	1,233,285
Reinsurance premium payable	1,519,426	2,253,851
Borrowings and lease liability	180,911	384,077
Trade and other payables	176,656	180,471
Current income tax liability	447,343	204,664
	3,349,477	**4,256,348**

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.

(In thousands of Georgian Lari)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18.2.1. Credit risk (continued)

	2019	2018
Cash on current accounts with banks	373,116	1,286,951
Amounts due from credit institutions	4,920,664	4,342,450
Insurance receivables	2,890,792	6,355,107
Reinsurance receivables	1,590,319	1,961,965
Subrogation receivable (other assets)	40,241	111,804
	9,815,132	**14,058,277**

18.2.2. 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	93,942	86,969	-	**180,911**
BALANCE AT 31 DECEMBER 2019	**93,942**	**86,969**	**-**	**180,911**
Borrowings and lease liability	384,077	-	-	**384,077**
BALANCE AT 31 DECEMBER 2018	**384,077**	**-**	**-**	**384,077**

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. Related parties

	2019	2018
Amount of transactions:		
Medical (health) insurance claims paid to shareholder	1,322,215	1,585,738
Balance:		
Borrowings and lease liability from shareholder	180,911	384,077

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

Compensation of key management personnel was as follows:

	2019	2018
Key management compensation	360,918	423,019

20. Events after the statement of financial position date

These financial statements were authorised for issue by the management on 10 April 2020.

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