JSC Insurance Company Alpha

Separate Financial Statements

For the year ended 31 December 2018

Together with Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Insurance Company Alpha

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of JSC Insurance Company Alpha (the Company), which comprise the separate statement of financial position as at 31 December 2018, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at 31 December 2018 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the separate financial statements

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

In preparing the separate 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 separate financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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, separately or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate 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 separate 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 separate 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 separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

For and on behalf of BDO LLC

Tbilisi, Georgia

1 April 2019

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INDEPENDENT AUDITOR'S REPORT

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

For and on behalf of BDO LLC

Tbilisi, Georgia

1 April 2019

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Note	2018	2017
Gross written premiums on insurance contracts		18,567	9,325
Reinsurer's share of gross written premium on insurance contracts		(2,751)	(1,807)
Net written premium		**15,816**	**7,518**
Changes in provision for unearned premiums		(2,932)	(411)
Changes in the re-insurers portion in provision for unearned premiums		120	65
Net insurance premiums earned	**4**	**13,004**	**7,172**
Commission income	5	848	598
Net insurance revenue		**13,852**	**7,770**
Other operating income		71	32
Net operating income		**13,923**	**7,802**
Insurance claims and loss adjustment expenses		(9,186)	(6,573)
Insurance claims and loss adjustment expenses recovered from reinsurers		1,270	1,140
Net insurance claims incurred	**6**	**(7,916)**	**(5,433)**
Employee benefit expenses		(2,395)	(1,407)
Depreciation and amortization expenses	16,17	(181)	(142)
Rent expenses		(182)	(106)
Other operating expenses	7	(2,202)	(921)
Operating expenses		**(4,960)**	**(2,576)**
Gain/(loss) from operating activities		**1,047**	**(207)**
Financial income	8	1,104	1,982
Net gain (loss) from foreign currencies		(45)	9
Profit before income tax		**2,106**	**1,784**
Income tax benefit	9	1,566	-
Net profit		**3,672**	**1,784**
Other comprehensive income		-	-
Total comprehensive income for the year		**3,672**	**1,784**

Separate financial statements for the year ended 31 December 2018, which are presented in addition to consolidated financial statements, were approved on behalf of the management on 1 April 2019 by:

General Director ______________________ K. Diasamidze

Financial Director ______________________ D.Kublashvili

The accompanying notes on pages 9 to 32 are an integral part of these separate financial statements.

JSC INSURANCE COMPANY ALPHA

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of Georgian Lari)

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General Director K. Diasamidze K. Diasamidze

Financial Director D.Kublashvili

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The accompanying notes on pages 9 to 32 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Thousands of Georgian Lari)

	Note	2018	01.01.2018 Restated
Assets			
Cash and cash aquivalents	10	6,274	5,446
Placement with banks	11	5,979	2,149
Insurance and reinsurance receivables	12	6,991	4,523
Trade and other receivables	13	1,153	363
Reinsurance assets	14	1,164	732
Inventories	15	216	183
Deferred tax assets	9	1,566	-
Property and equipment	16	1,084	581
Intangible assets	17	183	301
Total assets		**24,610**	**14,278**
Equity			
Share capital	18	24,800	24,800
Accumulated loss		(15,061)	(18,733)
Total equity		**9,739**	**6,067**
Liabilities			
Insurance contract liabilities	14	11,446	7,072
Other insurance liabilities	19	605	299
Trade and other payables	20	2,664	735
Deferred commission income	5	156	105
Total liabilities		**14,871**	**8,211**
Total equity and liabilities		**24,610**	**14,278**

The accompanying notes on pages 9 to 32 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Note	Share capital	Accumulated loss	Total
Balance at 31 December 2016		**36,116**	**(20,454)**	**15,662**
Decrease in share capital		(11,316)	-	**(11,316)**
Total comprehensive income for the year		-	1,784	**1,784**
Balance at 31 December 2017	21	**24,800**	**(18,670)**	**6,130**
Change in accounting policy – IFRS 9 Financial Instruments (Note 2)		-	(63)	**(63)**
1 January 2018 as restated		**24,800**	**(18,733)**	**6,067**
Total comprehensive income for the year		-	3,672	**3,672**
Balance at 31 December 2018	21	**24,800**	**(15,061)**	**9,739**

The accompanying notes on pages 9 to 32 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	2018	2017
Cash flows from operating activities		
Insurance premiums received	14,969	8,041
Net deposited amounts received	2,144	429
Other income received	516	243
Interest received from deposits	1,079	680
Withdrawal of placement with banks	1,600	1,000
Increase in placement with banks	(5,400)	(2,100)
Insurance claims paid	(9,676)	(5,490)
Salaries and other employee benefits paid	(2,490)	(1,413)
Amounts paid to reinsurers	(218)	(157)
Commissions paid	(432)	(103)
Other expenses paid	(936)	(636)
Cash flows (used in) from operating activities	**1,156**	**494**
Cash flows from investing activities		
Purchase of property and equipment	(306)	(60)
Purchase of intangible assets	(20)	(69)
Proceeds from disposal of investment in subsidiary	-	500
Cash flows (used in) from investing activities	**(326)**	**371**
Cash flows from financing activities		
Net cash flows from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**830**	**865**
Cash and cash equivalents, beginning	**5,446**	**4,571**
Effect of exchange rates changes on cash and cash equivalents	(2)	10
Cash and cash equivalents, ending	**6,274**	**5,446**

The accompanying notes on pages 9 to 32 are an integral part of these separate financial statements.

1. General information

JSC Insurance Company Alpha (the "Company") was established in 2009. The Company possesses insurance license issued by the National Bank of Georgia for life and non-life insurance products. Insurance Company Alpha offers complete non-life insurance package for corporate and individual clients. It includes health, property, motor, transport, travel, cargo, agro, financial risk, air transport and so on.

Headquarter of the Company is located in Tbilisi. The Company's legal address is 16 Kazbegi St. Tbilisi Georgia.

As at 31 December 2018 and 2017 the Company was 100%-owned by Aversi Pharma LLC. Aversi Pharma LLC is 67% and 33% owned by the ultimate shareholders Paata Kurtanidze and Nikoloz Kurtanidze respectively.

As at 31 December 2018 the Company owned (100% share) a subsidiary –Alpha LLC, which main activity is marketing and intermediate activities. During the year 2018 the Company sold (100% share) a subsidiary - Airton Motors LLC, which main activity was technical service of motor vehicles.

2. Summary of significant accounting policy

Principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

2.1 Basis of preparation

a) Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs)

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements are disclosed in Note 3.

b) Basis of measurement

The financial statements have been prepared under the historical cost bases. Amounts are rounded to the nearest thousand, unless otherwise stated. The reporting period for the Company is the calendar year from January 1 to December 31.

c) Going concern

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholder have the intention to further develop the business of the Company in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Company.

2.2 Investment in subsidiary

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are accounted for under the cost method from the date that control commences until the date that control ceases.

2.3 Adoption of new or revised standards and interpretations

a) New standards interpretations and amendments effective from 1 January 2018

New standards impacting the Company that will be adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Company's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

2. Summary of significant accounting policy (continued)

The Company adopted IFRS 9 and IFRS 15 with a transition date of 1 January 2018. The Company has chosen not to restate comparatives on adoption of IFRS 9 and IFRS 15 and, therefore changes are not reflected in the restated prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 January 2018) and recognised in the opening equity balances.

The impairment provision on financial assets measured at amortised cost (such as insurance and reinsurance and other receivables) have been calculated in accordance with IFRS 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39. This has resulted in an increase to the impairment provision of insurance and reinsurance receivables at 1 January 2018 from that previously reported of GEL63 thousand.

The Company has not made any adjustments for adopting IFRS 15, as new standard have no significant impact on the opening equity balances.

Other new and amended standards and Interpretations issued by the IASB that will apply for the first time from 1 January 2018 are not expected to impact the Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

b) New standards interpretations and amendments not yet effective

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

IFRS 16 "Leases"

In January 2016 the IASB issued IFRS 16. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. This means that a lessor continues to classify leases as operating or finance. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as Property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short term leases (i.e. those with a term of 12 months or less) and leases of low value items.

As a result, a key question changes from whether a lease is an operating or a finance lease under current guidance, to whether an arrangement gives rise to something that meets the definition of a lease. The scope of IFRS 16 is wide, and some arrangements involving the use of assets that might be viewed as service contracts (which are executory and not recorded in the statement of financial position) may in fact result in a lease within the scope of IFRS 16. Significant changes to systems and processes may be required in order to comply with the new requirements.

In the income statement, the application of IFRS 16 will result in a depreciation charge (within operating expenses) and an interest expense. Assuming depreciation is charged on a straight-line basis, the total expense will be higher in the first part of a lease in comparison with later periods, because the lease liability and related interest expense will be higher.

The Company is currently assessing the possible impact of the new standard on its financial statements. This standard is effective for annual periods beginning on or after 1 January 2019.

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(Thousands of Georgian Lari)

2. Summary of significant accounting policy (continued)

2.4 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within "Foreign exchange gains and losses".

At 31 December 2018 and 2017 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	**EUR**
Exchange rate as at 31.12.2018	2.6766	3.0701
Exchange rate as at 31.12.2017	2.5922	3.1044

2.5 Insurance and investment contracts - classification

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

2.6 Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as premium is earned;

The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is charged to revenue.

2.7 Liability adequacy test

At each end of the reporting period the Company assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency are be recognised in profit or loss.

2.8 Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

2. Summary of significant accounting policy (continued)

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

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

2.9 Receivables and payables related to insurance contract

These include amounts to and from agents brokers and insurance contract holders.

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

(i) Salvage and subrogation reimbursements

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

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

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

2.10 Reserves for loss and loss adjustment expenses

Reserves are established for the payment of losses and loss adjustment expenses (LAE) on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported but not settled insurance claims (RBNS) and reserves for incurred but not reported losses (IBNR).

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

The Company forms reserve for reported but not settled involving known claims of insurers (re-insurers) at the reporting date confirmed by the relevant statements. The amount of reserve for reported but not settled insurance claims at the reporting date are the amount of reserved unpaid insurance money under known claims of insurers with respect to which the decision on complete or partial failure in premiums payment was not made. The amount of reserve for reported but not settled insurance claims is reported in the Company’s balance sheet as liabilities.

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

IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported. The reserve for incurred but not reported insurance claims is formed by the Company at the end of reporting date and is calculated based on the Company’s past experience. The amount of reserve for incurred but not reported insurance claims is reflected in the Company's balance as liabilities.

2. Summary of significant accounting policy (continued)

2.11 Insurance revenue and reinsurance expenses

Gross premiums

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

Reinsurance premiums

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. Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

2.12 Financial instruments

Financial assets

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement. Under new accounting policies financial assets are classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified all financial assets within "financial assets measured at amortised cost" category.

Financial assets at amortised cost

These assets arise principally from insurance activities, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for current and non-current insurance and reinsurance and other receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the insurance and reinsurance and other receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the insurance and reinsurance and other receivables. For insurance and reinsurance and other receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within other operating expenses in the statement of comprehensive income. On confirmation that the insurance and reinsurance and other receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's financial assets measured at amortised cost comprise insurance and reinsurance receivables, trade and other receivables placement with banks and cash and cash equivalents in the statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

2. Summary of significant accounting policy (continued)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. On 1 January 2018 (the date of initial application of IFRS 9), the Company has classified all financial as liabilities within "Other financial liabilities" category. Other financial liabilities include the following items: Other insurance liabilities, trade and other payables.

Other financial liabilities are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Offset of financial assets and liabilities

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

2.13 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and provision for impairment where required. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating.

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

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. Depreciation is charged to the statement of profit or loss.

Depreciation is calculated on a straight-line basis at the following useful lives:

Group	Useful life (year)
Buildings	50
Computers	5
Office equipment	5
Vehicles	10

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

2.14 Intangible Assets

Software

Intangible assets are stated at cost less accumulated amortization and provision for impairment where required. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

Amortization is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period. Amortization is calculated on a straight-line basis during 5 years.

2. Summary of significant accounting policy (continued)

2.15 Impairement of tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

2.16 Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

2.17 Contingent assets and liabilities

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognized only when the contingency is resolved.

2.18 Current and deferred income tax

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

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

2. Summary of significant accounting policy (continued)

Deferred income tax is recognized, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.19 Inventory

Inventories are stated at the lower of cost and net realizable value. The initial recognition of the Solvage assets is fair value. Movements in goods for resale are accounted for using the individual cost method. The weighted average cost method is used for other inventories.

2.20 Share capital

The amount of Company's authorised Share capital is defined by the Company's Charter. The changes in the Company's Charter (changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's shareholders. The authorised capital is recognised as share capital in the equity of the Company to the extent that it was contributed by the shareholders to the Company. Shareholders constribution is recognised at the fair value. Share capital is recognized at nominal value. Difference in contribution fair value and shares nominal value are recognised as emission capital.

2.21 Financial and operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3. Significant accounting estimates and judgments

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.

Estimates and assumptions

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

The estimation of the ultimate liability arising from claims made under non-life 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 General insurance claims provisions are not discounted for the time value of money.

b) Useful lives of property equipment and intangible assets

Property 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.

c) Impairement of tangible and intangible assets

The Company periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company estimates the recoverable amount of the asset. This requires the Company to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the financial statements.

d) Deferred tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Estimation of future taxable profit are related significant uncartainties. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

e) Impairment of financial assets

The Company assesses the probability of the non-payment of financial assets. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss. Significant and unanticipated changes to these assumptions and estimates included within the impairment of financial assets could result in significantly different results than those recorded in the financial statements.

f) Legal dispute

The Company only recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. The consequences of the legal disputes depend on significant uncertainty.

(Thousands of Georgian Lari)

4. Net insurance premiums earned

Net insurance premium earned by insurance types for the year ended 31 December 2018 can be presented as follows:

2018	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Changes in provision for unearned premiums, net of reinsurance	Net insurance premiums earned
Health	9,692	-	9,692	(2,176)	7,516
Casco	5,679	(1,591)	4,088	(234)	3,854
Property	1,197	(568)	629	37	666
Cargo	172	(120)	52	(2)	50
Travel	155	-	155	(11)	144
Personal accident	4	(1)	3	(2)	1
Financial risk	1,203	(415)	788	(253)	535
Air transport	-	-	-	2	2
Other liabilities	465	(56)	409	(173)	236
Total	**18,567**	**(2,751)**	**15,816**	**(2,812)**	**13,004**

*The company represents an insurer participating in the insurance system - a non-profit (non-commercial) legal entity “Compulsory Insurance center “. Gross written premium from the compulsory insurance for the year ended 31 December 2018 includes GEL1,860.

Net insurance premium earned by insurance types for the year ended 31 December 2017 can be presented as follows:

2017	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Changes in provision for unearned premiums, net of reinsurance	Net insurance premiums earned
Health	4,982	-	4,982	(111)	4,871
Casco	3,183	(1,352)	1,831	(107)	1,724
Property	518	(268)	250	(51)	199
Cargo	171	(70)	101	2	103
Travel	30	-	30	-	30
Personal accident	93	(31)	62	28	90
Financial risk	208	(17)	191	(61)	130
Air transport	58	(60)	(2)	2	-
Other liabilities	82	(9)	73	(48)	25
Total	**9,325**	**(1,807)**	**7,518**	**(346)**	**7,172**

5. Commission income

Commission income for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
As at 1 January	**105**	**91**
Changes in prior periods estimates	(63)	-
Gross written commission	962	612
Commision income recognised duaring the year	(848)	(598)
At 31 December	**156**	**105**

(Thousands of Georgian Lari)

6. Net insurance claims incurred

Net insurance claims incurred for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Insurance claims settled	(9,876)	(6,633)
Gross Change in outstanding claims	(1,442)	(596)
Subrogation	2,132	656
Insurance claims and loss adjustment expenses	**(9,186)**	**(6,573)**
Reinsurer's share of general insurance claims paid	1,934	824
Reinsurer's share of change in outstanding claims	312	316
Reinsurer's share of subrogation	(976)	-
Insurance claims and loss adjustment expenses recovered from reinsurers	**1,270**	**1,140**
Net insurance claims incurred	**(7,916)**	**(5,433)**

7. Other operating expenses

Other operating expenses for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Acquisition cost	(668)	(120)
Impairment of accounts receivable and other debtors	(593)	(417)
Compulsory insurance center expenses	(218)	-
Marketing expenses	(171)	(71)
Professional services	(168)	(83)
Stationary	(91)	(44)
Communication	(53)	(37)
Business trip	(52)	(22)
Other	(188)	(127)
Total	**(2,202)**	**(921)**

*Audit fee for the years ended 31 December 2018 and 2017 includes GEL33 thousand and GEL42 thousand.

8. Financial income

Financial income represents interest income incured on placements with resident banks. Financial income for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Interest income from financial institution	1,104	725
Amortisation of receivables from subsidiary disposal	-	1,257
Total	**1,104**	**1,982**

(Thousands of Georgian Lari)

9. Income tax benefit

Income tax benefit for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Current tax	-	-
Effect of taxable temporary differences	(118)	-
Recognition unrecognised deferred tax asets from tax-loss carry forward	1,684	-
Income tax benefit	**1,566**	**-**

The reconciliation between profit before tax multiplied by the statutory tax rate and income tax expense for the years ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Profit before income tax	**2,106**	**1,784**
Applicable tax rate	15%	15%
Theoretical income tax	(316)	(268)
Utilisation unrecognised deferred tax assets	258	268
Recognition unrecognised deferred tax asets from tax-loss carry forward	1,684	-
Expenses not deductible for tax purposes	(60)	-
Total	**1,566**	**-**

Deferred tax assets as at 31 December 2018 and 2017 can be presentedas follows:

	Asset 2018	Liability 2018	Net 2018	(Charged)/ credited to profit or loss 2018
Property and equipment	-	(163)	(163)	(76)
Intangible assets	38	-	38	8
Trade and other receivables	-	(79)	(79)	(64)
Tax-loss carry forward	1,756	-	1,756	1,684
Tax asset/(liabilities)	**1,808**	**(242)**	**1,566**	**1,566**

	Asset 2017	Liability 2017	Net 2017	(Charged)/ credited to profit or loss 2017
Property and equipment	-	(87)	(87)	-
Intangible assets	30	-	30	-
Trade and other receivables	-	(15)	(15)	-
Tax-loss carry forward	72	-	72	-
Tax asset/(liabilities)	**102**	**(102)**	**-**	**-**

	2018	2017
Urecognised deferred tax assets form tax-loss carry forward	**572**	**2,514**

(Thousands of Georgian Lari)

10. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2018 and 2017 can be presentedas follows:

	2018	2017
Cash in banks	6,260	5,298
Cash on hand	8	6
Restricted cash*	6	142
Total	**6,274**	**5,446**

*Cash and cash equivalents at 31 December 2018 and 2017 included restricted cash placed on a bank account as tender collateral. Additional information about cash and cash equivalents is disclosed in note 21 and note 23.

11. Placements with banks

Placement with banks as at 31 December 2018 and 2017 can be presentedas follows:

	2018	2017
Current portion of replacement of bank	5,300	2,100
Non-current portion of repalcement of bank	600	-
Accrued interest	79	49
Total	**5,979**	**2,149**

Placements with banks are represented by placements in Georgian Banks for more than 3 months. LEPL Insurance State Supervision Service of Georgia established minimum level of deposits (minimum reserve) and cash on bank accounts depended on the estimated insurance claims.

Additional information about placements with banks is disclosed in note 21 and note 23.

12. Insurance and reinsurance receivables

Insurance and reinsurance receivables as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Due from policyholders (health insurance)	5,655	3,660
Due from policyholders (non-health insurance)	1,661	1,114
Due from reinsurers	180	-
	7,496	**4,774**
Less-Allowances for receivables from policyholders	(505)	(251)
Total	**6,991**	**4,523**

Carrying amounts of insurance and reinsurance receivables approximate their fair value due to short term maturities. Additional information about Insurance and reinsurance receivables is disclosed in Note 21.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for insurance and reinsurance receivables. To measure expected credit losses on a collective basis, insurance and reinsurance receivables are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the insurance and reinsurance receivables for similar types of contracts.

The expected loss rates are based on the Company's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers. The Company has identified the gross domestic product (GDP), unemployment rate and inflation rate as the key macroeconomic factors in the countries where the Company operates.

(Thousands of Georgian Lari)

12. Insurance and reinsurance receivables (continued)

The Company has not recognised the impairment provision for the insurance recerivable from the related parties, since the Company does not have the credit impairment experience of these receivables. Ageing of insurance receivables from related paties as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Current	1,166	748
Past due 0-30 days	124	167
Past due 31-60 days	9	103
Past due 61-90 days	7	95
Past due 91-120 days	8	26
Past due more than 120 days	-	-
Total	**1,314**	**1,139**

Ageing of insurance rand reinsurance receivables from not related paties as at 31 December 2018 and 2017 can be presented as follows:

	2018	Impairment	Impairment 2018	2017	Impairment	Impairment 2017
Current	5,082	1%	(51)	3,039	1%	(30)
Past due 0-30 days	600	15%	(90)	404	15%	(61)
Past due 31-60 days	151	30%	(45)	33	30%	(10)
Past due 61-90 days	62	60%	(37)	16	60%	(10)
Past due 91-120 days	28	80%	(23)	16	80%	(13)
Past due more than 120 days	259	100%	(259)	127	100%	(127)
Total Past due and impaired	**6,182**		**(505)**	**3,635**		**(251)**
Less Provision for impairment	(505)			(251)		
Net receivable	**6,991**		**(505)**	**4,523**		**(251)**

Reconciliation of impairment allowance can be presented as follows:

	2018	2017
1 January (Note 12;13)	**(678)**	**(224)**
Change in accounting policy - IFRS 9 Financial Instruments	-	(63)
Impairment losses recognised during the year	(593)	(417)
Write off	-	26
31 December (Note 12;13)	**(1,271)**	**(678)**

(Thousands of Georgian Lari)

13. Trade and other receivables

Trade and other receivables as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Financial assets		
Receivables from subrogation reimbursements	1,292	530
Other receivables	75	112
Total financial receivables	**1,367**	**642**
Less-Allowances for receivables from subrogation reimbursements	(766)	(427)
Net financial receivables	**601**	**215**
Prepayments	552	117
Total	**1,153**	**363**

To measuring expected credit losses, the Company has divided receivables from subrogation reimbursements as “Group 1” and “Group 2”:

- Group 1 represents unsecured receivables, which includes receivables from third parties for losses of casco insurance. The Company has provided 50% impairement for receivables less than 90 days overdue and 100% impairement for receivables more than 90 days overdue.
- Group 2 represents secured receivables, which includes receivables from policyholders for losses of financial risk insurance. Imapirment of these recevables represents differences between of gross carrying amount of receivables and expected net cash flow from realisation of collaterals.

Carrying amounts of trade receivables approximate their fair value. Additional information about trade and other receivables is disclosed in Note 21.

14. Reinsurance assets and insurance contract liabilities

Reinsurance assets and insurance contract liabilities as at 31 December 2018 and 2017 can be presented as follows:

Insurance contract liabilities	2018	2017
Unearned premium provision	6,690	3,758
Provisions for claims reported by policyholders	4,203	2,990
Provisions for claims incurred but not reported (IBNR)	553	324
Total	**11,446**	**7,072**

Reinsurance of liabilities	2018	2017
Reinsurers’ share in unearned premium provision	471	351
Reinsurers’ share in provisions for claims reported by policyholders	555	292
Reinsurers’ share in provisions for claims incurred but not reported (IBNR)	138	89
Total	**1,164**	**732**

(Thousands of Georgian Lari)

14. Reinsurance assets and insurance contract liabilites (continued)

Analysis of movements in insurance contract liabilities and reinsurance assets as at 31 December 2018 and 2017 can be presented as follows:

a) Analyses of movement in provision for unearned premium

Provision for unearned premium, gross	2018	2017
Balance at 1 January	**3,758**	**3,347**
Gross premium Written	18,567	9,325
Gross earned premium	(15,635)	(8,914)
Balance at 31 December	**6,690**	**3,758**

provision for unearned premium - reinsurer's share:	2018	2017
Balance at 1 January	**351**	**286**
Reinsurer's share of gross written premium	2,751	1,807
Gross reinsurer's earned premium	(2,631)	(1,742)
Balance at 31 December	**471**	**351**

b) Provision for claims

	2018	2017
Total balance of claims provisions at 1 January	**3,314**	**5,997**
Payments in respect of prior and current year claims	(9,876)	(6,633)
New claims and changes in prior year claims	11,318	7,175
Provisions for claims reported by policyholders	**4,756**	**3,314**

Provision for claims - reinsurer's share:	2018	2017
Total balance of claims provisions at 1 January	**381**	**65**
Payments in respect of prior and current year claims	(1,934)	(824)
New claims and changes in prior year claims	2,246	1,140
Total claims provisions at 31 December	**693**	**381**

The major classes of insurance written by the Company include health, life, property, third party liability, casco, travel, personal accident and cargo. Risks under these policies usually cover twelve-month duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are not discounted for the time value of money.

15. Inventories

Inventories as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Solvage assets	128	131
Other inventories	88	52
Total	**216**	**183**

(Thousands of Georgian Lari)

16. Property and equipment

Property and equipment as at 31 December 2018 and 2017 can be presented as follows:

Historical cost	Land and buildings	Computer equipment	Office equipment	Vehicles	Lease hold improvements	Total
As at 31.12.2016	**572**	**265**	**138**	**11**	**-**	**986**
Additions	-	42	15	25	-	**82**
Disposals	-	(14)	(14)	-	-	**(28)**
As at 31.12.2017	**572**	**293**	**139**	**36**	**-**	**1,040**
Additions	-	258	57	187	66	**568**
Disposals	-	-	(3)	-	-	**(3)**
As at 31.12.2018	**572**	**551**	**193**	**223**	**66**	**1,605**
Accumulated depreciation						
As at 31.12.2016	(80)	(251)	(117)	(2)	-	**(450)**
depreciation	(14)	(9)	(12)	(2)	-	**(37)**
Depreciation of disposals	-	14	14	-	-	**28**
As at 31.12.2017	**(94)**	**(246)**	**(115)**	**(4)**	**-**	**(459)**
depreciation	(14)	(26)	(14)	(10)	(1)	**(65)**
Depreciation of disposals	-	-	3	-	-	**3**
As at 31.12.2018	**(108)**	**(272)**	**(126)**	**(14)**	**(1)**	**(521)**
Net book value						
As at 31.12.2017	**478**	**47**	**24**	**32**	**-**	**581**
As at 31.12.2018	**464**	**279**	**67**	**209**	**65**	**1,084**

17. Intangible assets

Intangible assets as at 31 December 2018 and 2017 can be presented as follows:

Historical cost	Softwares
As at 31.12.2016	**579**
Additions	121
As at 31.12.2017	**700**
As at 31.12.2018	**700**
Accumulated amortization	
As at 31.12.2016	**(294)**
Amortization	(105)
As at 31.12.2017	**(399)**
Amortization	(118)
As at 31.12.2018	**(517)**
Net book value	
As at 31.12.2017	**301**
As at 31.12.2018	**183**

Company’s softwares include insurance and accounting softwares.

(Thousands of Georgian Lari)

18. Share capital

In 2018 and 2017 100% shareholder of the Company withdrawn GEL11,316,284 from the capital. As at 31 December 2018 and 2017 number of issued and fully paid shares were 34,396,000 with nominal value GEL0.721

19. Other insurance liabilities

Other insurance liabilities as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Reinsurance payable	351	228
Commission payable	254	71
Total	**605**	**299**

Carrying amounts of other insurance liabilities approximate their fair value. Additional information about other insurance liabilities is disclosed in Note 21.

20. Trade and other payables

Trade and other payables as at 31 December 2018 and 2017 can be presented as follows:

	2018	2017
Financial liabilities		
Deposited amounts	2,325	412
Trade payables	206	203
Salaries payable	133	120
Total	**2,664**	**735**

Carrying amounts of trade and other payables approximate their fair value. Additional information about trade and other payables is disclosed in Note 21.

21. Financial instruments - 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 it is managed through a process of ongoing identification measurement and daily monitoring subject to risk limits and other controls. Each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Company's operations are those related to credit liquidity and market movements in interest and foreign exchange rates. A summary description of the Company's risk management policies in relation to those risks follows.

Capital management objectives policies and approach

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

The capital management objectives are:

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

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

Insurance risk

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected by change in any subset of the portfolio as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

The Company establishes underwriting guidelines and limits which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

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

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

	2018	**2017**
Loss ratio	57%	70%

(Thousands of Georgian Lari)

21. Financial instruments - risk management (continued)

The Company principally issues the following types of general insurance contracts: property, motor, third party liability, personal accident, casco, travel, cargo, medical (health) and third-party liability. Such type insurance policies usually cover twelve months duration. For non-health insurance contracts, the most significant risks arise from climate changes and natural disasters. For healthcare contracts the most significant risks arise from lifestyle changes epidemic and so on. These risks vary significantly in relation to the location type and industry of the risk insured. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further strict claim review policies to assess all new and ongoing claims regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements.

Sources of uncertainty in the estimation of future claim payments

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

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its 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 Incurred but not reported (IBNR) claims 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.

Financial Risk

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

- Credit risk
- Liquidity risk
- Currency risk

Principal financial instruments

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

	2018	2017
Reinsurance assets	693	381
Insurance and reinsurance receivables, net of impairement	6,991	4,523
Trade and other receivables, net of impairement	601	215
Placements with banks	5,979	2,149
Cash and cash equivalents	6,274	5,446
Total financial assets	**20,538**	**12,714**

	2018	2017
Insurance contract liabilities	4,756	3,314
Other insurance liabilities	605	299
Trade and other payables	2,664	735
Total financial liabilities	**8,025**	**4,348**

21. Financial instruments - risk management (continued)

Fair value of financial instruments

A number of assets and liabilities included in the Company's financial statements require disclosure of, fair value. The fair value measurement of the Company's financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets approximate fair value due to their short-term maturities.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Company considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair value.

The fair value of cash and cash equivalents were determined using level 1 measurement and the fair value of other financial assets and liabilities were determined using level 3 measurement.

Credit Risk

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

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

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due. The management controls these types of risks by means of maturity analysis determining the Company's strategy for the next financial period. In order to manage liquidity risk the Company performs regular monitoring of future expected cash flows which is a part of assets/liabilities management process. Maturity date for all financial liabilities as at 31 December 2018 and 2017 is less than one year.

(Thousands of Georgian Lari)

21. Financial instruments - risk management (continued)

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Company. The Company has not floating interest rates financial instruments.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities as at 31 December 2018 and 2017 were as follows:

	2018	2017
Financial assets denominated USD		
Insurance and reinsurance receivables	685	231
Cash and cash equivalents	2	54
Total financial assets	**687**	**285**
Financial liabilities denominated USD		
Other insurance liabilities	351	228
Total financial liabilities	**351**	**228**
Open balance sheet position	**336**	**57**

The following table details the Company's sensitivity to a 20% increase and decrease in the GEL against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably 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 20% change in foreign currency rates. Impact on profit before tax and equity based on asset values is presented in the table below:

	USD/GEL + 20%	USD/GEL - 20%	USD/GEL + 20%	USD/GEL - 20%
Effect on profit/(loss)	67	(67)	12	(12)

(Thousands of Georgian Lari)

22. Transactions with related parties

Related parties include owners, subsidiary and entities under common ownership and control with the Group and members of key management personnel. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Transactions with related parties and balances for the years ended 31 December 2018 are following:

Balance with related parties	Owners	Entities under common control	Total
Insurance and reinsurance receivables	654	660	**1,314**
Unearned premium provision	654	660	**1,314**
Provisions for claims reported by policyholders	624	832	**1,456**
Trade and other payables	64	-	**64**
Transaction with related parties			
Gross written premiums on insurance contracts	448	844	**1,292**
Insurance claims settled	(1,509)	(1,213)	**(2,722)**
Rent expenses	(105)	(6)	**(111)**

Transactions with related parties and balances for the years ended 31 December 2017 are following:

Balance with related parties	Subsidiaries	Owners	Entities under common control	Total
Insurance and reinsurance receivables	-	481	658	**1,139**
Unearned premium provision	-	481	658	**1,139**
Provisions for claims reported by policyholders	-	316	449	**765**
Trade and other payables	-	165	-	**165**
Transaction with related parties				
Gross written premiums on insurance contracts	-	124	8	**132**
Insurance claims paid	219	(1,077)	(2,935)	**(3,793)**
Rent expenses	-	(92)	(6)	**(98)**
Financial income	-	1,257	-	**1,257**

Key management personnel compensation for the year ended 31 December 2018 and 2017 can be presented as follows:

	2018	2017
short-term employee benefits	(228)	(148)

(Thousands of Georgian Lari)

23. Contingencies and Commitments

Legal proceedings - As at 31 December 2018 the Company was engaged in some material litigation proceedings with regard to the reimbursement of insurance cover.

The first case is related to health insurance loss reimbursement. Additional information about this litigation is disclosed in Note 24.

Other cases are related to Casco loss reimbursement. Total amount of compensation that litigants request is GEL40 without penalties. Management believes no material unaccrued losses will be incurred and accordingly no additional provision has been made in these financial statements.

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

Regulatory requirements – The Company is obliged to satisfy minimum capital requirements at all stages of insurance activity. Minimum capital requirements are determined by the LEPL Insurance State Supervision Service of Georgia. As at 31 December 2018 minimum capital required for the company amounted to GEL4,200 thousands. Furthermore, during the whole period of its activity, the Company is obliged to have national or foreign currency and/or debt securities placed in commercial bank of Georgia, the amount of which is determined according to the minimum capital required by the legislation of Georgia for insurance organisations registered in Georgia. As at 31 December 2018 minimum placement required for the company amounted to GEL4,200 thousands.

LEPL Insurance State Supervision Service of Georgia also requires the Company to have assets for covering insurance reserves. The assets permitted to cover insurance reserves are determined by the Regulatory body. Due to the same requirement, the Company has to maintain cash and cash equivalents, not less than 10% of total insurance reserves, placed in commercial bank of Georgia. As at 31 December 2018 the Company was using cash and cash equivalents as well as placements with banks for covering insurance reserves.

Future rentals payable - The company has operating leased contracts which completion date is uncertain (unlimited duration). The Company's future minimum rentals payable under non-cancellable operating leases as of 31 December 2018 and 2017 can be presented as follows:

	2018	**2017**
Within one year	116	117
Later than one year but within five years	43	147
Total	**159**	**264**

24. Events after the reporting period

After the reporting period, the Company has reached settlement agreement with creditor related to legal dispute. The case is related to health insurance loss reimbursement. According to the settlement agreement, the Company is obliged to reimburse for the creditor GEL300 thousend. As the 31 December 2018 requested amount is fully included within insurance contract liabilities.