# JSC PRIME INSURANCE

## Financial Statements and

## Independent Auditor's Report

Year ended 31 December 2018

Contents:

BDO

Tel: +995 32 2545 845
Fax: +995 32 2188 188
www.bdo.ge

2 Tarkhnishvili street
Vere Business Center
0179 Tbilisi
Georgia

# INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC PRIME INSURANCE

## Opinion

We have audited the financial statements of **JSC PRIME INSURANCE**, (hereinafter - the Company) which comprise the statement of financial position as at 31 December 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

## Basis for Opinion

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

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

## Emphasis of matter paragraph

The financial statements of JSC Prime insurance for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on April 16, 2018. We conducted audit for adjusting prior period misstatements presented in Note 5, for correcting financial statements for the year ended 31 December 2017. In our opinion these adjustments are made properly. We were not appointed to conduct procedures, review or audit of the financial statements for the year ended 31 December 2017. Except for above mentioned adjustments, we do not express an opinion or any other assurance on financial statements for the year ended 31 December 2017.

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 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 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 (SARAS-A-720718)

Tbilisi, Georgia

11 April 2019

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In GEL)

| | Note | 2018 | 2017 Restated (Note 5) |
|---|---|---|---|
| Gross written premiums on insurance contracts | | 6,555,620 | 5,038,689 |
| Reinsurer's share of gross written premium on insurance contracts | | (247,588) | (426,569) |
| **Net written premium** | | **6,308,032** | **4,612,120** |
| Changes in provision for unearned premiums | | 1,019,196 | (442,172) |
| Changes in the re-insurers portion in provision for unearned premiums | | (161,030) | (1,005) |
| **Net insurance revenue** | **6** | **7,166,198** | **4,168,943** |
| Reinsurance commission income | | 31,313 | 9,270 |
| **Total revenue** | | **7,197,511** | **4,178,213** |
| Insurance claims and loss adjustment expenses | | (4,078,143) | (2,257,659) |
| Insurance claims and loss adjustment expenses recovered from reinsurers | | (87,829) | 82,050 |
| **Net insurance claims** | 7 | **(4,165,972)** | **(2,175,609)** |
| Acquisition costs | 8 | (460,351) | (334,457) |
| General and administrative expenses | 9 | (2,322,216) | (1,861,568) |
| Impairment charge | | (330,371) | (117,958) |
| Other income/(expenses) | 10 | (92,381) | 102,333 |
| **Operating expenses** | | **(3,205,319)** | **(2,211,650)** |
| **Result from operating activities** | | **(173,780)** | **(209,046)** |
| Interest income | | 234,868 | 129,418 |
| Exchange rate difference gain/loss | | (32,147) | 30,332 |
| **Profit/ (Loss) before tax** | | **28,941** | **(49,296)** |
| Income tax benefit/ (expense) | 11 | 62,728 | (82,207) |
| **Total comprehensive income/ (loss) for the year** | | **91,669** | **(131,503)** |

These financial statements were approved by management on 11 April 2019 and were signed on its behalf by:

Financial Director ______________ M.Guruli

Notes on pages 9-38 are the integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In GEL)

| | Note | 31.12.2018 | 31.12.2017 Restated (Note 5) | 01.01.2017 Restated (Note 5) |
|---|---|---|---|---|
| **Assets** | | | | |
| Property and Equipment | 12 | 172,934 | 179,507 | 81,294 |
| Intangible assets | 13 | 102,778 | 98,177 | 41,227 |
| Deferred tax asset | 11 | 114,159 | 51,431 | 133,638 |
| Deferred acquisition costs | 14 | 80,731 | 244,766 | 168,726 |
| Insurance and reinsurance receivables | 15 | 1,921,176 | 2,208,792 | 2,295,182 |
| Reinsurance assets | 16 | 83,443 | 332,302 | 251,257 |
| Other assets | 17 | 509,906 | 300,741 | 337,478 |
| Amount due from credit institutions | 18 | 4,880,156 | 3,511,004 | 3,024,101 |
| Cash and cash equivalents | 19 | 343,514 | 279,351 | 668,071 |
| **Total assets** | | **8,208,797** | **7,206,071** | **7,000,974** |
| **Liabilities** | | | | |
| Insurance contract liabilities | 16 | 2,273,728 | 3,122,365 | 2,686,355 |
| Reinsurance liabilities | | 303,013 | 253,627 | 1,084,161 |
| Other liabilities | 20 | 274,040 | 240,522 | 242,529 |
| **Total liabilities** | | **2,850,781** | **3,616,514** | **4,013,045** |
| **Equity** | | | | |
| Share capital | 21 | 7,725,554 | 6,048,764 | 5,315,633 |
| Accumulated loss | | (2,367,538) | (2,459,207) | (2,327,704) |
| **Total Equity** | | **5,358,016** | **3,589,557** | **2,987,929** |
| **Total equity and liabilities** | | **8,208,797** | **7,206,071** | **7,000,974** |

Notes on pages 9-38 are the integral part of these financial statements.

## STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2018

(In GEL)

| | Share capital | Accumulated loss | Total |
|---|---|---|---|
| **At 1 January 2017** | **5,315,633** | **(2,327,704)** | **2,987,929** |
| Issue of share capital | 733,131 | - | **733,131** |
| Total comprehensive loss for the year | - | (131,503) | **(131,503)** |
| **At 31 December 2017** | **6,048,764** | **(2,459,207)** | **3,589,557** |
| Issue of share capital | 1,676,790 | - | **1,676,790** |
| Total comprehensive income for the year | - | 91,669 | **91,669** |
| **At 31 December 2018** | **7,725,554** | **(2,367,538)** | **5,358,016** |

Notes on pages 9-38 are the integral part of these financial statements.

JSC PRIME INSURANCE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In GEL)

| | 2018 | 2017 Restated (Note 5) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from written premium | 7,044,385 | 4,622,724 |
| Re-written premium paid | (804,105) | (732,358) |
| Paid claims and loss adjustment expenses | (4,016,835) | (2,423,536) |
| Paid claims recovered by reinsurer's | - | 2,947 |
| Commission income received form reinsurers | 11,637 | 2,153 |
| Subrogation income received | 84,385 | 137,581 |
| Employee benefits paid | (1,173,189) | (965,825) |
| Taxes paid | (441,461) | (307,377) |
| acquisition costs paid | (232,288) | (440,778) |
| Advertising and marketing expenses paid | (188,036) | (17,080) |
| Expenses for rent paid | (170,588) | (145,325) |
| Communication expenses paid | (46,686) | (28,222) |
| Bank fees paid | (14,602) | (12,115) |
| Stationary expenses paid | (13,045) | (12,280) |
| Consulting and audit fees paid | (9,215) | (93,475) |
| Other expenses paid | (306,779) | (163,624) |
| **Cash flows used in operating activities** | **(276,422)** | **(576,590)** |
| **Cash flows from investing activities** | | |
| Property and equipment purchased | (56,670) | (138,592) |
| Disposal of property and equipment | 13,576 | 19,139 |
| Purchase of Intangible assets | (24,000) | (61,001) |
| Interest received from deposits | 234,868 | 129,418 |
| Other prepaid expenses | (71,378) | (24,035) |
| Amounts due from credit institutions | (1,369,152) | (486,903) |
| **Cash flows used in investing activities** | **(1,272,756)** | **(561,974)** |
| **Cash flows from financing activities** | | |
| Issue of share capital | 1,676,790 | 733,131 |
| **Net Cash flows from financing activities** | **1,676,790** | **733,131** |
| Effect of changes in foreign exchange rate on cash and cash equivalents | (63,449) | 16,713 |
| **Net Increase/(decrease) in cash and cash equivalents** | **64,163** | **(388,720)** |
| **Cash and cash equivalents at the beginning of year** | **279,351** | **668,071** |
| **Cash and cash equivalents at the end of year** | **343,514** | **279,351** |

Notes on pages 9-38 are the integral part of these financial statements.

## 1. General information

JSC PRIME INSURANCE (204540274) (Hereinafter - The Company) was established on 4 November 2007. The Company's principal activity is Insurance activity. The company owns 2 types of licenses for life and non-life insurance, issued by the National Insurance State Supervision Service of Georgia.

As at 31 December 2018, 2017 and 1 January 2017 founder and 100% shareholder of the Company is MERCURY EUROPE HOLDINGS (B 165504, Emile Reuter ave. N1 , L-2420, Luxemburg). Ultimate shareholder and controlling party of the Company is Alia Babaeva (Azerbaijan) as at 31 December 2018, 2017 and 1 January 2017. Headquarter of the Company is located in Tbilisi, the Company has two service centres in Batumi and Poti.

Legal address of the Company is 32A, A. Kazbegi ave, First entrance, floor 2, Commercial area N8.

## 2. Basis of preparation

### Basis of measurment

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

The Company keeps its books and records in Georgian Lari and the financial statements are also prepared in Georgian Lari.

The reporting period for the Company is the calendar year from January 1 to December 31.

The preparation of financial Statements in compliance with IFRS requires the use of certain critical accounting estimates, it also requires from 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 and their effect are disclosed in Note 4.

The financial statements have been prepared under the historical cost bases.

### 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 shareholders have the intention to further develop the business of the Company in Georgia. The management believes that the going concern assumption is appropriate for the Company.

### Change in accounting policies

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

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15)

**IFRS 15 Revenue from Contracts with Customers.** In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation

## 2. Basis of preparation (Continued)

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also required.

Application of IFRS 15 had no effect on the financial statements.

*b) New standards, interpretations and amendments not yet effective*

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial Statements, will or may influence the Company's future financial Statements:

- IFRS 9 - Financial instruments
- IFRS 16 - Leases
- IFRS 17 - Insurance contracts

**IFRS 9 - Financial Instruments.** On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduced new requirements for classifying and measuring financial assets that had to be applied starting 1 January 2013, with early adoption permitted.

On 28 October 2010, the IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities.

On 16 December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which amended the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and modified the relief from restating comparative periods and the associated disclosures in IFRS 7.

On 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) amending IFRS 9 to include the new general hedge accounting model, allow early adoption of the treatment of fair value changes due to own credit on liabilities designated at fair value through profit or loss and remove the 1 January 2015 effective date.

On 24 July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions.

Key features of the new standard are:

- Financial assets are required to be 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).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

2. **Basis of preparation (Continued)**

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stages' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Standard is effective from 01 January 2018. An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. Deferral approach. Under the amendments that make up the deferral approach, an entity applies IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1 January 2021. The Company is currently assessing the possible impact of IFRS 9 on its financial statements.

**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.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. an entity is permitted to apply IFRS 16 before 1 January 2019 if it has previously applied IFRS 15 - Revenue from contracts with customers.

The Company is currently assessing the possible impact of the new standard on its financial statements.

## 2. Basis of preparation (Continued)

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

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows).

A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period).

- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period.
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of comprehensive income, but are recognised directly on the balance sheet.
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

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

## 3. Significant accounting policies

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

### *3.1 Foreign currency translation*

#### *a) Functional and presentation currency*

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

### 3. Significant accounting policies (Continued)

*b) Transactions and balances*

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

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

At 31 December 2018 and 2017 and 1 January 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 |
| Exchange rate as at 01.01.2017 | 2.6468 | 2.7940 |

### *3.2 Insurance contracts*

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

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

### *3.3 Property and equipment*

The Company is accounting Property and Equipment according to IAS 16 - "Property and equipment" requirements.

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

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

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

| Class | Useful life (year) |
|---|---|
| Leasehold improvement | 5 |
| Technical equipment | 2-5 |
| Fixture and fittings | 5-10 |
| Vehicles | 10 |

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

## 3. Significant accounting policies (Continued)

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

### *3.4 Intangible Assets*

*Accounting Software*

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

Amortization is calculated using the straight-line method to allocate assets' cost or cost after impairment amounts over their estimated useful lives. Useful life of accounting software is determined as 7 years.

### *3.5 Deferred policy acquisition costs (DAC)*

Deferred acquisition costs are commission and other acquisition costs related to agents and brokerage companies for selling the insurance contracts. Deferred acquisition costs 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 with the straight line basis.

### *3.6 Reinsurance contracts*

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

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a annual basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets (Note 3.8).

## 3. Significant accounting policies (continued)

### *3.7 Receivables and payables related to insurance contracts*

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

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

*(i) Salvage and subrogation reimbursements*

Some insurance contracts permit the 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.

### *3.8 Financial instruments*

**Financial assets**

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

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

*(a) Loans and receivables*

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

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income. On confirmation that the trade receivable and loan granted will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's loans and receivables comprise insurance and reinsurance receivables, amounts due from credit institutions and cash and cash equivalents accounts.

Cash and cash equivalents include cash on current accounts and cash on hand.

**3. Significant accounting policies (continued)**

*(b) Held-to-maturity investments*

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

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

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

(c) Those that meet the definition of loans and receivables.

*(c) Fair value through profit or loss*

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

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

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

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

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

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

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

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

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

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

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

*(d) Available-for-sale*

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

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

### 3. Significant accounting policies (continued)

**Financial liabilities**

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

*(a) Fair value through profit or loss*

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

(a) It is classified as held for trading

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

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

(b) *Other financial liabilities*

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

**Derecognition of financial assets**

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

**Derecognition of financial liabilities**

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

**Offsetting**

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

### *3.9 Insurance contract liabilities*

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

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

3. **Significant accounting policies (continued)**

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

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

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

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

*(iii) Unearned premium reserve*

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

### *3.10 Liability adequacy test*

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

### *3.11 Current and deferred income tax*

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

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

Deferred income tax 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 realized, 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 utilized.

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

### *3.12 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.

## 4. Critical accounting estimates and judgements

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

*b) Impairment of insurance and reinsurance receivables*

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

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

## 5. Prior period errors and reclassifications

Where necessary, the corresponding figures have been restated to conform to the presentation of the current year amounts. Management believes that restated figures reflect more fair presentation of financial position and financial performance of the Company. The management of the Company has restated following:

- Has offset Written premium with re-written premium and related areas of the fronting contracts;
- Has made voluntary reclassifications;

**The effect of prior period errors and reclassifications are as follows:**

| **Financial position** | **As previously presented 31.12.2017** | **Effect of adjustments** | **Reclassifications** | **As presented 31.12.2017** |
|---|---|---|---|---|
| **Assets** | | | | |
| Accrued interests on deposits | 33,819 | - | (33,819) | - |
| Amount due from credit institutions | 3,477,185 | - | 33,819 | 3,511,004 |
| Prepaid reinsurance expense | 304,945 | - | (304,945) | - |
| Reinsurance assets | - | (70,360) | 402,662 | 332,302 |
| Inventory | 40,524 | - | (40,524) | - |
| Other investments | 24,035 | - | (24,035) | - |
| Other assets | 480,947 | - | (180,206) | 300,741 |
| Receivables from reinsurance | 122,291 | - | (122,291) | - |
| Receivables from insurance | 2,184,219 | - | (2,184,219) | - |
| Insurance and reinsurance receivables | - | - | 2,208,792 | 2,208,792 |
| Deferred acquisition cost | - | - | 244,766 | 244,766 |
| **Liabilities** | | | | |
| RBNS | 512,050 | - | (512,050) | - |
| IBNR | 174,780 | - | (174,780) | - |
| Unearned premium reserve | 2,505,895 | (70,360) | (2,435,535) | - |
| Insurance contract liabilities | - | - | 3,122,365 | 3,122,365 |
| Deferred income from reinsurance's commissions | 2,508 | - | (2,508) | - |
| Other current liabilities | 238,014 | - | 2,508 | 240,522 |

5. Prior period errors and reclassifications (Continued)

| Prior period errors and reclassifications effect on profit and loss | As previously presented 31.12.2017 | Effect of adjustments | Reclassifications | As presented 31.12.2017 |
|---|---|---|---|---|
| **2017** | | | | |
| Gross written premium | 5,122,336 | (83,647) | - | 5,038,689 |
| Reinsurance expense | (509,878) | - | 509,878 | - |
| Re-share in written premium | - | 82,305 | (508,874) | (426,569) |
| Re-share in earned premium | - | - | (1,005) | (1,005) |
| Other income from insurance | 251,964 | - | (251,964) | - |
| Claims paid | (2,513,505) | - | 2,513,505 | - |
| Change in IBNR | 3,881 | - | (3,881) | - |
| Insurance claims and loss adjustment expenses | - | - | (2,257,659) | (2,257,659) |
| Other non-operational profit/(loss) | 102,333 | - | (102,333) | - |
| Other income /(expense) | - | - | 102,333 | 102,333 |
| Changes in provision for unearned premiums | (443,514) | 1,342 | - | (442,172) |
| Income from Reinsurers' paid claims | 82,050 | - | (82,050) | - |
| Insurance claims and loss adjustment expenses recovered from reinsurers | - | - | 82,050 | 82,050 |

| Prior period errors and reclassifications effect on financial position | As previously presented 01.01.2017 | Effect of adjustments | Reclassifications | As presented 01.01.2017 |
|---|---|---|---|---|
| **01.01.2017** | | | | |
| accrued interests on deposits | 21,482 | - | (21,482) | - |
| amount due from credit institutions | 3,002,619 | - | 21,482 | 3,024,101 |
| Prepaid reinsurance expense | 304,608 | (69,018) | (235,590) | - |
| Reinsurance assets | - | - | 251,257 | 251,257 |
| Inventory | 92,047 | - | (92,047) | - |
| Other assets | 414,157 | - | (76,679) | 337,478 |
| Receivables from reinsurance | 501,175 | - | (501,175) | - |
| Receivables from insurance | 1,809,674 | - | (1,809,674) | - |
| Insurance and reinsurance receivables | - | - | 2,295,182 | 2,295,182 |
| Deferred acquisitions cost | - | - | 168,726 | 168,726 |
| **Liabilities** | | | | |
| RBNS | 514,330 | - | (514,330) | - |
| IBNR | 178,662 | - | (178,662) | - |
| Unearned premium reserve | 2,062,381 | - | (2,062,381) | - |
| Insurance contract liabilities | - | (69,018) | 2,755,373 | 2,686,355 |
| Differed commission income from Reinsurance | 9,194 | - | (9,194) | - |
| Other liabilities | 233,335 | - | 9,194 | 242,529 |

### 6. Net earned premium

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

| 2018 | Written premium | Re-share in written premium | Net written premium | Net change in UPR | Net earned premium |
|---|---|---|---|---|---|
| Health insurance | 2,159,033 | - | 2,159,033 | 646,297 | 2,805,330 |
| Compulsory insurance* | 1,859,142 | - | 1,859,142 | (126,139) | 1,733,003 |
| Vehicle insurance | 1,427,042 | - | 1,427,042 | 204,269 | 1,631,311 |
| Container insurance | 378,180 | - | 378,180 | (5,322) | 372,858 |
| Liability insurance | 294,205 | (112,115) | 182,090 | 23,165 | 205,255 |
| Property insurance | 242,962 | (101,468) | 141,494 | 55,046 | 196,540 |
| Cargo insurance | 113,874 | (34,005) | 79,869 | 10,818 | 90,687 |
| Travel insurance | 16,961 | - | 16,961 | 753 | 17,714 |
| Financial risk insurance | 64,221 | - | 64,221 | 45,195 | 109,416 |
| Marine insurance | - | - | - | 4,084 | 4,084 |
| **Total** | **6,555,620** | **(247,588)** | **6,308,032** | **858,166** | **7,166,198** |

(*) - The company represents an insurer participating in the insurance system accomplished with the help of non-profit (non-commercial) legal entity "Compulsory Insurance center". Written premium from Compulsory insurance for the year ended 31 December 2018 represents GEL1,859,142.

| 2017 | Written premium | Re-share in written premium | Net written premium | Net change in UPR | Net earned premium |
|---|---|---|---|---|---|
| Health insurance | 1,908,083 | - | 1,908,083 | (249,593) | 1,658,490 |
| Vehicle insurance | 1,574,184 | 7,555 | 1,581,739 | (106,739) | 1,475,000 |
| Property insurance | 525,411 | (142,107) | 383,304 | (119,476) | 263,828 |
| Container insurance | 381,492 | - | 381,492 | (472) | 381,020 |
| Liability insurance | 321,712 | (219,291) | 102,421 | 67,110 | 169,531 |
| Financial risk insurance | 126,458 | (3,649) | 122,809 | (22,393) | 100,416 |
| Cargo insurance | 97,642 | (15,660) | 81,982 | (12,208) | 69,774 |
| Marine insurance | 82,609 | (53,417) | 29,192 | (145) | 29,047 |
| Travel insurance | 21,098 | - | 21,098 | 739 | 21,837 |
| **Total** | **5,038,689** | **(426,569)** | **4,612,120** | **(443,177)** | **4,168,943** |

### 7. Net insurance claims

Net insurance claims can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Insurance claims paid | (4,127,311) | (2,513,505) |
| Gross change in RBNS and IBNR | (170,559) | 6,162 |
| Income from Regress and salvages | 219,727 | 249,684 |
| Insurance claims and loss adjustment expenses | **(4,078,143)** | **(2,257,659)** |
| Reinsurers' share in change of RBNS and IBNR | (87,829) | 82,050 |
| Insurance claims and loss adjustment expenses recovered from reinsurers | **(87,829)** | **82,050** |
| **Net insurance claims** | **(4,165,972)** | **(2,175,609)** |

### 8. Acquisition costs

Acquisition costs can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Current year acquisition costs (Note 14) | (296,316) | (410,497) |
| Expenses deferred from current year acquisition costs | 54,506 | 239,615 |
| Amortization of prior years' deferred acquisition costs | (218,541) | (163,575) |
| **Total** | **(460,351)** | **(334,457)** |

### 9. Expenses for marketing and administration

Expenses for marketing and administration can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Employee benefits | (1,437,193) | (1,242,831) |
| Marketing expenses | (203,102) | (21,583) |
| Rent expense | (198,958) | (177,940) |
| Consultancy and audit expense* | (131,632) | (103,836) |
| Depreciation and amortisation | (74,149) | (51,053) |
| Utilities and communication expenses | (54,367) | (44,583) |
| Representative expenses | (43,392) | (20,177) |
| Fuel expenses | (25,518) | (24,556) |
| Insurance | (23,809) | (23,013) |
| Bank fees and commissions | (14,856) | (12,115) |
| Other | (115,240) | (139,881) |
| **Total** | **(2,322,216)** | **(1,861,568)** |

(*)- Accrued expenses under the subheading "Consulting and audit expenses" in 2018 and 2017 include audit fee expenses with the amounts of GEL3,000 and GEL15,000, respectively.

### 10. Other income/(expenses), net

Other income/ (expenses), net can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| **Other expenses** | | |
| Expenses of Compulsory insurance center | (214,283) | - |
| **Other income** | | |
| Debt written off | 99,769 | 83,194 |
| Profit from sale of fixed assets | 9,015 | 19,139 |
| Other | 13,118 | - |
| **Total** | **(92,381)** | **102,333** |

### 11. Income tax expense

Income tax expense can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| Current tax | - | - |
| Effect of temporary differences | 62,728 | (82,207) |
| **Total** | **62,728** | **(82,207)** |

| | 2018 | 2017 |
|---|---|---|
| **Profit/ (loss) before tax** | **28,941** | **(49,296)** |
| Applicable tax rate | 15% | 15% |
| Theoretical income tax | **(4,341)** | **7,394** |
| Prior year unrecognized tax loss | 72,401 | |
| Temporary differences not recognized | - | (72,401) |
| Effect of Permanent differences | (5,332) | (17,200) |
| **Total** | **62,728** | **(82,207)** |

Differed income tax asset can be presented as follows:

| **Effect of temporary differences** | 01.01.2017 | Recognized in profit/ (loss) | 31.12.2017 | Recognized in profit/ (loss) | 31.12.2018 |
|---|---|---|---|---|---|
| Property and equipment | **(1,479)** | (5,105) | **(6,584)** | 31 | **(6,553)** |
| Intangible assets | **(5,253)** | (665) | **(5,918)** | 1,048 | **(4,870)** |
| Insurance and reinsurance receivables | - | - | - | 44,790 | **44,790** |
| Tax loss carry forward | **140,370** | (4,036) | **136,334** | (55,542) | **80,792** |
| **Income tax asset/ (liability)** | **133,638** | **(9,806)** | **123,832** | **(9,673)** | **114,159** |
| **Unrecognized temporary differences** | | | | | |
| Tax loss carry forward | | (72,401) | **(72,401)** | 72,401 | - |
| **Income tax asset/ (liability), net** | **133,638** | **(82,207)** | **51,431** | **62,728** | **114,159** |

## 12. Property and equipment

Property and equipment can be presented as follows:

| Historical cost | Leasehold improvement | Technical and telecommunication equipment | Furniture and other fixed assets | Vehicles | Total |
|---|---|---|---|---|---|
| **01.01.2017** | **63,605** | **136,565** | **76,738** | **98,312** | **375,220** |
| Additions | 6,191 | 38,021 | 18,956 | 75,174 | **138,342** |
| Disposals | - | - | - | (43,990) | **(43,990)** |
| **31.12.2017** | **69,796** | **174,586** | **95,694** | **129,496** | **469,572** |
| Additions | 4,395 | 17,840 | 10,691 | 19,813 | **52,739** |
| Disposals | - | - | - | (11,900) | **(11,900)** |
| **31.12.2018** | **74,191** | **192,426** | **106,385** | **137,409** | **510,411** |
| **Accumulated depreciation** | | | | | |
| **01.01.2017** | **(60,580)** | **(118,518)** | **(44,281)** | **(70,548)** | **(293,927)** |
| Depreciation | (1,450) | (8,344) | (8,499) | (21,834) | **(40,127)** |
| Disposals | | | | 43,989 | **43,989** |
| **31.12.2017** | **(62,030)** | **(126,862)** | **(52,780)** | **(48,393)** | **(290,065)** |
| Depreciation | (2,767) | (15,728) | (8,958) | (27,297) | **(54,750)** |
| Disposals | - | - | - | 7,338 | **7,338** |
| **31.12.2018** | **(64,797)** | **(142,590)** | **(61,738)** | **(68,352)** | **(337,477)** |
| **Net book value** | | | | | |
| **01.01.2017** | **3,025** | **18,047** | **32,457** | **27,764** | **81,293** |
| **31.12.2017** | **7,766** | **47,724** | **42,914** | **81,103** | **179,507** |
| **31.12.2018** | **9,394** | **49,836** | **44,647** | **69,057** | **172,934** |

According to the agreement signed between the Company and JSC Bank of Georgia, dated as 8 and 21 May, 2018, N PE 4225818 - D, following assets with total net book values of GEL52,463 are pledged for collateral:

1. NISSAN SUNNY, 2013 , N CV492VG, VIN MDHBBAN17Z0008281;
2. NISSAN SUNNY, 2013 , N CV493VG, VIN MDHBBAN17Z0509474;
3. HYNDAI GRANDIER, 2017, N PR001ME, VIN KMHF34IEBJA054775;

## 13. Intangible assets

Intangible assets of the Company are comprised from accounting and insurance softwares, with total net book values of GEl102,778 as at 31 December 2018 (GEL98,177 - 31.12.2017, GEL41,277 - 01.01.2017). Accumulated amortization as at 31 December 2018 amounts to GEL47,171 (27,772 - 31.12.2017 and GEL16,846 - 01.01.2017). Amortization expense for the year ended 31 December 2018 amounts to GEL19,399 (GEL10,926 - 31.12.2017)

### 14. Differed acquisition costs

Differed acquisition costs can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| **At January 1** | **244,766** | **168,726** |
| Current year deferred acquisition costs (Note 8) | 296,316 | 410,497 |
| Amortization (Note 8) | (460,351) | (334,457) |
| **31 December** | **80,731** | **244,766** |

### 15. Insurance and reinsurance receivables

Insurance and reinsurance receivables can be presented as follows:

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| Receivables from policyholders | 2,168,432 | 2,303,794 | 1,899,977 |
| Receivables from reinsurers | 51,344 | 24,573 | 485,509 |
| | **2,219,776** | **2,328,367** | **2,385,486** |
| Impairment provision | (298,600) | (119,575) | (90,304) |
| **Total** | **1,921,176** | **2,208,792** | **2,295,182** |

Movement in provision for impairment can be presented as follows:

| | 2018 | 2017 |
|---|---|---|
| **Balance at the beginning of the year** | **119,575** | **90,304** |
| Increase in provision for impairment | 179,025 | 29,271 |
| **Balance at the end of the year** | **298,600** | **119,575** |

Book values of insurance and reinsurance receivables do not vary from their fair value.

The Company creates provision for its overdue receivables. Qualitative information about financial receivables is presented in Note 22.

### 18. Amounts due from credit institutions

Amounts due from credit institutions can be presented as follows:

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| **Principal:** | | | |
| JSC "Bank of Georgia" | 2,059,492 | 684,499 | 216,063 |
| JSC "Liberty Bank" | 1,000,000 | - | - |
| JSC "Halyk Bank Georgia" | 940,000 | 929,220 | 529,360 |
| JSC "ISBANK Georgia" | 834,575 | 863,466 | 846,976 |
| JSC "TBC Bank" | - | 1,000,000 | - |
| JSC "Tera Bank" (Former JSC "Kor Standard Bank") | - | - | 1,410,220 |
| **Interest accrued:** | 46,089 | 33,819 | 21,482 |
| **Total** | **4,880,156** | **3,511,004** | **3,024,101** |

Amounts due from credit institutions are represented by placements in Georgian Banks. The Georgian State Insurance Supervisory Agency (GSISA) established minimum level of deposits (minimum reserve) and cash on bank accounts dependent on the estimated insurance claims. Detailed information about liquidity and currency of amounts due from credit institutions are provided in Note 22.

Amounts due from credit institutions present *Not overdue and not impaired* category assets for the Company.

### 19. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| Cash at bank | 325,618 | 266,867 | 660,140 |
| Cash on hand | 17,896 | 12,484 | 7,931 |
| **Total** | **343,514** | **279,351** | **668,071** |

Additional information about currencies of cash and cash equivalents is disclosed in Note 22.

Cash and cash equivalents present *Not overdue and not impaired* category assets for the Company.

### 20. Other liabilities

Other liabilities can be presented as follows:

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| **Financial liabilities** | | | |
| Commission payables | 132,390 | 100,906 | 204,707 |
| Trade payables | 58,268 | 16,655 | 21,792 |
| Payables to employees | 352 | 11,786 | - |
| Other liabilities | 3,593 | 6,737 | 6,835 |
| Deposited amount | - | 44,970 | - |
| **Non-financial liabilities** | | | |
| Taxes payable | 54,439 | 56,960 | - |
| differed commission income | 24,998 | 2,508 | 9,195 |
| **Total** | **274,040** | **240,522** | **242,529** |

Book values of other liabilities do not vary from their fair value.

### 21. Share capital

Share Capital can be presented as follows:

| | Authorized shares | | |
|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
| ordinary shares | 2,800 | 2,800 | 2,800 |
| Nominal value of each share | 2,759 | 2,160 | 1,898 |

| | Issued and fully paid shares | |
|---|---|---|
| | Quantity | Amount |
| **01.01.2017** | **2,800** | **5,315,633** |
| Change in nominal value of share | - | **732,367** |
| **31.12.2017** | **2,800** | **6,048,000** |
| Change in nominal value of share | - | 1,677,554 |
| **31.12.2018** | **2,800** | **7,725,554** |

### 22. 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 are given below.

### 22.1. 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.

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

## 22. Risk management (Continued)

In accordance with 16th September of 2016 instruction, published by head of ISSSG, insurer's regulatory capital must exceed calculated solvency's 50% from 1st January of 2017 to 1st July of 2017. Insurer's regulatory capital must exceed calculated solvency's 75% from 1st July of 2017 to 1st January of 2018.

In the same way, in accordance with 16th September of 2016 instruction, published by head of ISSSG, insurer's regulatory capital at all stages of insurance activity must exceed minimum required capital defined in 25th December of 2017 №27 instruction published by head of ISSSG as follows:

a) GEL4,200,00 for life insurance;

b) GEL3,400,000 for other non-life insurance, - Except for Compulsory TPL, Liability insurance and credit liability insurance;

c) GEL4,200,000 for mandatory third-party liability insurance, surety bonds and credit liability insurance; and

d) GEL4,200,000 for reinsurance;

As at 31 December 2018 and 2017 the Company was in compliance with above mentioned regulatory requirements.

### 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.

### 22.2. 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 | 58% | 52% |

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

### 22. Risk management (Continued)

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

**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 outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR.

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

The company has prudential estimation of outstanding insurance liabilities. 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.

### 22.3. Financial Risk

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

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

**Principal financial instruments**

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

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| Insurance and reinsurance receivables | 1,921,176 | 2,208,792 | 2,295,182 |
| Other assets | 99,679 | 149,207 | 142,585 |
| Amount due from credit institutions | 4,880,156 | 3,511,004 | 3,024,101 |
| Cash and cash equivalents | 343,514 | 279,351 | 668,071 |
| **Total financial assets** | **7,244,525** | **6,148,354** | **6,129,939** |
| Reinsurance liabilities | 303,013 | 253,627 | 1,084,161 |
| Other liabilities | 194,603 | 181,054 | 233,334 |
| **Total financial liabilities** | **497,616** | **434,681** | **1,317,495** |

## 22. Risk management (Continued)

### 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.

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

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on ageing analysis and overdue status for each customer individually.

### Reinsurance

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

The Company analyzes ageing of insurance receivables for managing credit risks. Ageing analysis of insurance receivables can be presented as follows:

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| Not past due | 1,837,908 | 2,165,099 | 2,228,731 |
| 0-30 days overdue | - | 27,885 | 25,836 |
| 31-60 days overdue | 38,794 | 17,429 | 17,296 |
| 61-90 days overdue | 33,360 | 13,063 | 14,748 |
| 91-120 days overdue | 31,201 | 9,318 | 10,874 |
| 121-365 days overdue | 204,892 | 48,581 | 57,224 |
| More than 360 days overdue | 73,621 | 46,992 | 30,777 |
| **Total, before impairment** | **2,219,776** | **2,328,367** | **2,385,486** |
| Impairment loss | (298,600) | (119,575) | (90,304) |
| **Total** | **1,921,176** | **2,208,792** | **2,295,182** |

## 22. Risk management (Continued)

Ageing analysis of subrogation receivables can be presented as follows:

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| Not past due | 6,063 | 5,246 | 4,481 |
| 0-30 days overdue | 7,832 | 6,777 | 5,789 |
| 31-60 days overdue | 24,847 | 21,499 | 18,365 |
| 61-90 days overdue | 85,853 | 74,285 | 63,457 |
| 91-120 days overdue | 527 | 456 | 390 |
| 121-365 days overdue | 3,717 | 3,216 | 2,747 |
| More than 360 days overdue | 626,823 | 542,365 | 463,307 |
| **Total, before impairment** | | | |
| Impairment loss | (655,983) | (504,637) | (415,951) |
| **Total** | **99,679** | **149,207** | **142,585** |

### Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they fall due.

The management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period.

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

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

| | 31.12.2018 | 31.12.2017 | 01.01.2017 |
|---|---|---|---|
| **Financial liabilities** | **Not past due** | **Not past due** | **Not past due** |
| Reinsurance liabilities | 303,013 | 253,627 | 1,084,161 |
| Other liabilities | 194,603 | 181,054 | 233,334 |
| **Total** | **497,616** | **434,681** | **1,317,495** |

The Company has no financial liabilities overdue more than 1 months.

### Market Risk

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

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

- **Interest Rate Risk**

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

- **Currency risk**

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

## 22. Risk management (Continued)

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

| 31.12.2018 | GEL | USD | EUR | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables from insurance and reinsurance | 964,338 | 922,169 | 34,669 | **1,921,176** |
| Other assets | 99,679 | - | - | **99,679** |
| Amounts due from credit institutions | 2,883,732 | 1,996,424 | - | **4,880,156** |
| Cash and cash equivalents | 239,287 | 104,227 | | **343,514** |
| **Total assets** | **4,187,036** | **3,022,820** | **34,669** | **7,244,525** |
| **Financial liabilities** | | | | |
| Reinsurance liabilities | 7,295 | 295,718 | - | **303,013** |
| Other financial liabilities | 194,603 | - | - | **194,603** |
| **Total liabilities** | **201,898** | **295,718** | - | **497,616** |
| **Open balance sheet position** | **3,985,138** | **2,727,102** | **34,669** | |

| 31.12.2017 | GEL | USD | EUR | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables from insurance and reinsurance | 1,637,991 | 567,663 | 3,138 | **2,208,792** |
| Other assets | 149,207 | - | - | **149,207** |
| Amounts due from credit institutions | 1,672,854 | 1,838,150 | - | **3,511,004** |
| Cash and cash equivalents | 263,209 | 16,142 | - | **279,351** |
| **Total assets** | **3,723,261** | **2,421,955** | **3,138** | **6,148,354** |
| **Financial liabilities** | | | | |
| Reinsurance liabilities | 7,849 | 245,778 | - | **253,627** |
| Other financial liabilities | 181,054 | - | - | **181,054** |
| **Total liabilities** | **188,903** | **245,778** | - | **434,681** |
| **Open balance sheet position** | **3,534,358** | **2,176,177** | **3,138** | |

| 01.01.2017 | GEL | USD | EUR | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Receivables from insurance and reinsurance | 869,054 | 1,422,443 | 3,685 | **2,295,182** |
| Other current assets | 142,585 | - | - | **142,585** |
| Amounts due from credit institutions | - | 1,877,816 | 1,146,285 | **3,024,101** |
| Cash and cash equivalents | 616,591 | 20,248 | 31,232 | **668,071** |
| **Total assets** | **1,628,230** | **3,320,507** | **1,181,202** | **6,129,939** |
| **Financial liabilities** | | | | |
| Reinsurance liabilities | 5,811 | 1,078,350 | - | **1,084,161** |
| Other financial liabilities | 233,334 | - | - | **233,334** |
| **Total liabilities** | **239,145** | **1,078,350** | - | **1,317,495** |
| **Open balance sheet position** | **1,389,085** | **2,242,157** | **1,181,202** | |

## 22. Risk management (Continued)

### Currency risk sensitivity

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

Impact on net profit and equity based on asset values as at 31 December 2018 and 2017:

| 2018 | USD impact | | EUR impact | |
|---|---|---|---|---|
| | 20% | - 20% | 20% | - 20% |
| Profit/(loss) | 545,420 | (545,420) | 6,934 | (6,934) |

| 2017 | USD impact | | EUR impact | |
|---|---|---|---|---|
| | 20% | - 20% | 20% | - 20% |
| Profit/(loss) | 435,235 | (435,235) | 628 | (628) |

## 23. Transactions with related parties

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

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

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

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

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

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

## 23. Transactions with related parties (Continued)

Included in the statement of comprehensive income are the following amounts which were recognized in transactions with related parties:

| Statement of comprehensive income | 2018<br>Transactions with related parties | 2017<br>Transactions with related parties |
|---|---|---|
| Key management personnel | (343,417) | (242,632) |
| **Commission income** | | |
| Other* | (81,743) | (47,536) |
| **Expenses for marketing and administration** | | |
| Shareholder | (9,688) | - |
| Other* | (11,488) | - |

| Statement of financial position | 31.12.2018<br>Transactions with related parties | 31.12.2017<br>Transactions with related parties | 01.01.2017<br>Transactions with related parties |
|---|---|---|---|
| **Insurance and reinsurance receivables** | | | |
| Shareholder | 64 | - | - |
| Other* | 1,273 | - | - |
| **Other assets** | | | |
| Other* | 2,300 | 7,633 | - |
| **Deferred acquisition costs** | | | |
| Other* | 94,677 | - | - |
| **Other liabilities** | | | |
| Other* | 60,950 | - | - |

(*) - Other represents Entities under common control and key management

## 24. Commitments and contingencies

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

**Taxes** - Georgian tax legislation may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the 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.

## 25. Events after the reporting period

There have been no subsequent events that need to be disclosed in the financial statements.