JSC PRIME INSURANCE

Financial Statements

Together with Independent Auditor’s Report

Year ended 31 December 2021

Contents:

INDEPENDENT AUDITOR'S REPORT 3

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME 5
STATEMENT OF FINANCIAL POSITION 6
STATEMENT ON CHANGES IN EQUITY 7
STATEMENT OF CASH FLOWS 8

NOTES TO THE FINANCIAL STATEMENTS

1. General information 9
2. Basis of preparation 9
3. Critical accounting estimates and judgements 12
4. Risk management 12
5. Prior period reclassifications 19
6. Net earned premium 19
7. Net insurance claims 20
8. Acquisition costs 20
9. Other expenses 21
10. Income tax expense 21
11. Cash and cash equivalents 22
12. Amounts due from credit institutions 22
13. Other assets 23
14. Insurance and reinsurance receivables 23
15. Insurance contract liabilities and reinsurance assets 24
16. Differed acquisition costs 26
17. Intangible assets 26
18. Right-of-use assets and lease liabilities 26
19. Property and equipment 27
20. Share capital 27
21. Other liabilities 27
22. Reinsurance liabilities 28
23. Transactions with related parties 28
24. Commitments and contingencies 29
25. Events after the reporting period 29
26. Significant accounting policies 30

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC PRIME INSURANCE

Disclaimer of Opinion

We were engaged to audit the financial statements of JSC PRIME INSURANCE, (hereinafter - the Company), which comprise the statement of financial position as at December 31, 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The company incurred loss amounting GEL441,478 for the year 2021. The accumulated loss for the ended 31 December 2021 amounts to GEL3,601,622. Also the Company fails to meet the regulatory capital requirements specified by the insurance legislation, that may cause sanctions from regulatory body. As mentioned in Note 25, after the reporting period, in February 2022, the Russian Federation started the full-scale war against Ukraine. As a result, governments of different countries have imposed the sanctions against Russian based or oversea companies with the headquarters in Russia as well as individuals related to Russian government that caused their operations to be restricted. As at 31 December 2021 and on the date of publication of these financial statements the Some of the insurance risks has been reinsured to sanctioned reinsurer. These circumstances indicate that there is a substantial uncertainty, which raise significant doubts about the Company's ability to continue operating as a going concern. Management has not been able to present sufficient appropriate audit evidence to support its plans to overcome legislative and financial difficulties. Hence, we have not been able to determine whether the going concern is an appropriate assumption for the preparation of these financial statements.

As at 31 December 2021 there was some indication of impairment of the long-term assets – property and equipment, right-of-use assets and intangible assets. The Company has not conducted testing on impairment for these assets, as it is required by IAS 36 "Asset Impairment". In the statement of financial position as at 31 December 2021, the above-mentioned long-term assets are presented at a total amount of GEL1,051,134. As a result of these matter, we were unable to determine whether any adjustments might have been found necessary in respect of property and equipment, right-of-use assets and intangible assets and the elements making up the financial statements.

As at 31 December 2021 the Company has estimated an expected credit loss of GEL19,794 for "Insurance and Reinsurance receivables" amounted GEL2,116,817. We have not been able to obtain sufficient appropriate audit evidence as to whether the expected credit loss has been calculated and accounted for in accordance with requirements of IFRS 9. As a result of these matter, we were unable to determine whether any adjustments might have been found necessary in respect of "Insurance and reinsurance receivables" and the elements making up the financial statements.

As at 31 December 2021 the expected outcome of legal disputes with total amount of GEL1,012,672 has been disclosed as a contingent liability, in Note 24 of these financial statements. We have not been able to obtain sufficient appropriate audit evidence as to whether the outcome of these legal disputes should be estimated and disclosed as contingent liabilities or accounted as expenses and provision. As a result of these matter, we were unable to determine whether any adjustments might have been found necessary in respect of provision and the other elements making up these financial statements.

As at 31 December 2021 the Company reclassified the salvaged property amounted GEL74,040 form "Other assets" to "Property and equipment" area. In 2021, the Company revalued the property and accounted a revaluation reserve with the amount of GEL132,983. We have not been able to obtain sufficient appropriate audit evidence as to whether the nature of use of the property has changed. As a result of these matter, we were unable to determine whether any adjustments might have been found necessary in respect of property and equipment, revaluation reserve and other elements making up the financial statements.

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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the the ethical requirements that are relevant to our audit of the financial statements in Georgia and have fulfilled our other responsibilities under those ethical requirements.

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

Ivane Zhuzhunashvili

For and on behalf of BDO Audit LLC (SARAS-A-720718)

Tbilisi, Georgia

15 April 2022

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

(In GEL)

	Note	2021	2020*
Gross written premiums on insurance contracts	6	5,358,777	5,923,195
Reinsurer's share of gross written premium on insurance contracts	6	(191,715)	(183,580)
Net written premium		**5,167,062**	**5,739,615**
Changes in provision for unearned premiums		(162,754)	35,237
Changes in the re-insurers portion in provision for unearned premiums		10,956	(27,466)
Net insurance revenue	6	**5,015,264**	**5,747,386**
Reinsurance commission income		24,885	64,064
Total revenue		**5,040,149**	**5,811,450**
Insurance claims and loss adjustment expenses	7	(2,141,875)	(3,449,557)
Insurance claims and loss adjustment expenses recovered from reinsurers	7	-	74,366
Net insurance claims	**7**	**(2,141,875)**	**(3,375,191)**
Acquisition costs	8	(376,860)	(336,372)
Salaries and other employee benefits		(1,764,820)	(1,745,989)
Impairment provision change		468,824	(732,544)
Other expenses	9	(1,462,557)	(1,268,300)
Interest income, net		125,701	137,544
Exchange rate difference gain/ (loss), net		(319,178)	541,835
Loss before tax		**(430,616)**	**(967,567)**
Income tax expense	10	(10,862)	(28,059)
Loss for the year		**(441,478)**	**(995,626)**
Other comprehensive income			
Gain on property revaluation		132,983	-
Other comprehensive income for the year, net of tax		**132,983**	**-**
Total comprehensive loss		**(308,495)**	**(995,626)**

(*) - The reporting year ended 31 December 2020 has been restated. For details refer to Note 5.

These financial statements were approved by the Management on 15 April 2022 and were signed on its behalf by:

Financial Director ____________________ M.Guruli

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(In GEL)

	Note	31.12.2021	31.12.2020
Assets			
Cash and cash equivalents	11	236,948	649,774
Amount due from credit institutions	12	7,745,105	5,291,678
Other assets	13	414,002	499,708
Insurance and reinsurance receivables	14	2,097,023	1,553,906
Reinsurance assets	15	128,596	117,640
Deferred acquisition costs	16	177,878	164,795
Deferred tax asset	10	-	10,862
Issued loans		57,200	-
Intangible assets	17	146,051	108,131
Right-of-use assets	18	477,538	658,566
Property and equipment	19	427,545	245,989
Total assets		**11,907,886**	**9,301,049**
Equity			
Share Capital	20	10,891,468	7,725,554
Revaluation reserve		132,983	-
Accumulated loss		(3,601,622)	(3,160,144)
Total equity		**7,422,829**	**4,565,410**
Liabilities			
Other liabilities	21	972,425	670,239
Reinsurance liabilities	22	155,184	362,741
Insurance contract liabilities	15	2,782,115	2,898,735
Lease payables	18	575,333	803,924
Total liabilities		**4,485,057**	**4,735,639**
Total equity and liabilities		**11,907,886**	**9,301,049**

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

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2021

(In GEL)

	Share capital	Accumulated loss	Revaluation reserve	Total
31.12.2019	**7,725,554**	**(2,164,518)**	**-**	**5,561,036**
Loss for the year	-	(995,626)	-	**(995,626)**
31.12.2020	**7,725,554**	**(3,160,144)**	**-**	**4,565,410**
Increase in share capital	3,165,914	-	-	**3,165,914**
Loss for the year	-	(441,478)	-	**(441,478)**
Other comprehensive income	-	-	132,983	**132,983**
31.12.2021	**10,891,468**	**(3,601,622)**	**132,983**	**7,422,829**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

(In GEL)

Cash flows from operating activities	**2021**	**2020**
Cash received from written premium	4,967,816	6,205,639
Re-written premium paid	(341,152)	(671,934)
Paid claims and loss adjustment expenses	(2,969,982)	(2,900,863)
Commission income received from reinsurers	20,062	41,153
Subrogation income received	484,472	81,534
Acquisition costs paid	(302,539)	(338,467)
Salaries and other employee benefits paid	(1,345,028)	(1,301,728)
Taxes paid	(301,582)	(771,270)
Bank fees paid	(5,235)	(10,207)
Rent paid	(316,961)	(122,704)
Consulting and audit fees paid	(61,551)	(57,041)
Communication expenses paid	(85,041)	(80,270)
Stationary expenses paid	(12,477)	(19,916)
Advertising and marketing expenses paid	(65,988)	(42,261)
Interest received from deposits	170,517	207,672
Amounts due from credit institutions	(2,453,427)	(87,989)
Other expenses paid	(475,061)	(125,365)
Cash flows from/ (used in) operating activities	**(3,093,157)**	**5,983**
Cash flows from investing activities		
Issue of loan	(57,200)	-
Property and equipment purchased	(50,541)	(80,191)
Disposal of property and equipment	-	24,804
Purchase of intangible assets	(47,909)	(31,996)
Cash flows used in investing activities	**(155,650)**	**(87,383)**
Cash flows from financing activities		
Interest paid on lease liability	-	(72,488)
Principal paid for lease liability	-	(179,406)
Issue of share capital	3,165,914	-
Net Cash flows from/ (used in) financing activities	**3,165,914**	**(251,894)**
Effect of changes in foreign exchange rate on cash and cash equivalents	(329,933)	558,903
Net Increase/(decrease) in cash and cash equivalents	**(412,826)**	**225,609**
Cash and cash equivalents at the beginning of year	**649,774**	**424,165**
Cash and cash equivalents at the end of year	**236,948**	**649,774**

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

1. General information

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

As at 31 December 2021 and 2020 founder and 100% shareholder of the Company is MERCURY EUROPE HOLDINGS (B 165504, Emile Reuter ave. N11, L-2420, Luxemburg).

As at 31 December 2021 and 2020 the ultimate shareholder and controlling party of the Company is Alia Babaeva (Azerbaijan).

Headquarter of the Company is located in Tbilisi, Georgia, Vake District, University Street, N24, Floor 6, Entrance 1, Office N6. The Company has four service centres in Batumi, Telavi, Poti and Tbilisi as at 31 December 2021.

2. Basis of preparation

Bases of presentation

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 accounting records in accordance with IFRSs, in Lari, as it is required by Georgian legislation. These financial statements are prepared based on accounting records of the Company.

The Company prepares its financial statements in Lari. The financial statements have been prepared under the historical cost bases. The reporting period for the Company is the calendar year from January 1 to December 31. Amounts given in the financial statements are not rounded unless otherwise stated.

Preparation of the financial statements in compliance with IFRS requires the use of certain critical accounting estimates, that effects on the carrying amounts of assets and liabilities, as well as income and expenses recognized during the accounting period.

Actual results may be different from currently made estimates. Estimations are reviewed periodically. Adjustments that result changes in accounting estimates are recognized in the accounting period that they relate to. Significant accounting estimates are disclosed in Note 3.

Significant accounting policies made in preparing the financial statements are provided in Note 26.

Going Concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. In making this judgement, Management considered the Company's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the situation in the financial markets on the operations of the Company.

Loss for the year of the Company in 2021 amounts to GEL441,478 and the accumulated loss amounts to GEL3,601,622, also as at 31 December 2021 the Company fails to meet the regulatory capital requirements specified by the insurance legislation.

As it is noted in Note 25, after the reporting period, in February 2022, the Russian Federation launched hostilities on the territory of Ukraine, which escalated into a full-scale war. This event and the worlds response for the Russian Federations activities, have had a significant impact on many companies operating in Russia or Ukraine. Sanctions imposed on the Russian government, enterprises and individuals, may have impact on the use of many financial resources and on trade in general. The Company has reinsured insurance risks to the Companies registered in Russian federation as at 31 December 2021 and as at the date of publication of these financial statements, including an insurer that is on the sanctioned list.

2. Basis of preparation (Continued)

Nevertheless, the Management of the Company believes that preparation of the accompanying financial statements on the going concern basis is appropriate because of the following:

- The management of the Company decided to replace the reinsurers registered in Russian federation, about which an action plan was submitted to the Insurance Supervision Service.
- According to the Management of the Company, the Shareholders of the Company are ready to provide financial assistance to the Company by raising capital, if necessary.
- The Company has developed a budget plan for 2022, which has been submitted to Insurance state supervision service of Georgia as a way to meet the regulatory capital requirements set by the law.

Based on this, the Management confirms that they have a reasonable expectation that the Company, as a whole, have adequate resources to continue in operational existence for the 12 months from the date the financial statements are authorised for issue. 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 for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Changes in accounting policies

a) New standards, interpretations and amendments adopted from 1 January 2021

New standards immaterially impacting the Bank that has been adopted in the annual financial statements for the year ended 31 December 2021:

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

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 Bank has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

The following amendments are effective for the period beginning 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- *IFRS 17 Insurance contracts (For detailed information please, see below).*

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.

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). According to the mentioned approach the Company is using IAS 39 instead IFRS 9 for the periods beginning before 1 January 2023.

2. Basis of preparation (Continued)

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. Under the amendments that make up the deferral approach, an entity applies IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1st January 2023.

At the end of 2021, the Company met the criteria for an approach of the provisional exemption from the use of IFRS 9 - the total carrying amount of liabilities arising from IFRS 4 contracts was not less than 90% of the total carrying amount of all its liabilities.

	31.12.2021	31.12.2020
Liabilities related to insurance within the scope of IFRS 4		
Insurance contract liabilities	2,782,115	2,898,735
	2,782,115	**2,898,735**
Liabilities related to insurance outside the scope of IFRS 4		
Other insurance liabilities	1,300,541	1,376,263
Reinsurance liabilities	155,184	362,741
Deferred commission income	7,088	13,875
	1,462,813	**1,752,879**
Total carrying amount of insurance-related liabilities	**4,244,928**	**4,651,614**
Total liabilities	**4,485,057**	**4,735,639**
The share of insurance-related liabilities in the carrying amount of total liabilities	**95%**	**98%**

If the Company had applied IFRS 9 instead of deferral approach, its effect on profit and loss for the reporting period ending in the year 2021 and 2020 would have been immaterial.

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was deferred to annual reporting periods beginning on or after 1 January 2023.

In response to feedback and enquiries from stakeholders, in December 2020, the IFRS Interpretations Committee (IFRIC) issued a Tentative Agenda Decision, analysing the applicability of the amendments to three scenarios. However, given the comments received and concerns raised on some aspects of the amendments, in April 2021, IFRIC decided not to finalise the agenda decision and referred the matter to the IASB. In its June 2021 meeting, the IASB tentatively decided to amend the requirements of IAS 1 with respect to the classification of liabilities subject to conditions and disclosure of information about such conditions and to defer the effective date of the 2020 amendment by at least one year.

The Bank is currently assessing the impact of these new accounting standards and amendments. The Bank will assess the impact of the final amendments to IAS 1 on classification of its liabilities once the those are issued by the IASB. The Bank does not believe that the amendments to IAS 1, in their present form, will have a significant impact on the classification of its liabilities, as the conversion feature in its convertible debt instruments is classified as an equity instrument and therefore, does not affect the classification of its convertible debt as a non-current liability.

Other

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

3. Critical accounting estimates and judgements

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

Estimates and assumptions

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

The estimation of the claims arising under the 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 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. Claims arising under the insurance contracts are not discounted. For a methodology of estimating claims arising under the insurance contracts see Note 26.

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.

In the case of existing of indicators for impairment, the Management estimates the future cash flows of the receivable's portfolio and, if necessary, the future cash flows of the individual receivable.

c) Legal proceedings

The Company reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the progress of the case, the opinions or views of legal advisers, experience on similar cases and any decision of the Company's Management as to how it will respond to the litigation, claim or assessment.

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

4. Risk management

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.

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.

4. Risk management (Continued)

- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators, and stakeholders.

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.

Regulatory requirements

The insurance sector in Georgia is regulated by the Insurance State Supervision Service of Georgia ("ISSSG"). The ISSSG imposes minimum capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins.

According to the ISSSG directive №27, issued on 25 December 2017, the minimum capital from 31 December 2018 throughout the period should be at least either 1/3 of RSM or GEL 4,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances.

The Company makes certain adjustments to the IFRS equity in these statements of financial position in order to arrive to the ISSSG prescribed capital.

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

- The Regulatory Capital should be at least either RSM or GEL 4,200 thousand throughout the period from 1 January 2019 to 31 December 2021;
- The Regulatory Capital should be at least either RSM or GEL 7,200 thousand throughout the period from 31 December 2021.

The Regulatory Capital is determined based on the IFRS equity, adjusted for, for example, investments in subsidiaries and associates, unsecured loans and borrowings, etc. as prescribed by the ISSSG directive №16. As at 31 December 2021 the Company was not in compliance with the level of Regulatory Capital in excess of RSM.

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.

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.

Taking this into account, the Company sets out underwriting directives and restrictions, which determine who can take what risk and with what restrictions. These restrictions are constantly 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 ratio calculated on a net basis were as follows:

	2021	**2020**
Loss Ratio	43%	59%

Insurance contracts of the Company are comprised of: Vehicle, health and life, property, cargo, aviation, personal accident, travel, liability insurance, third-party liability insurance. Duration of this kind of contracts is mainly 12 months.

4. Risk management (Continued)

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes, and flood damages.

Management believes that due to the short-tailed nature of the Company's business, the performance of the Company's portfolio is sensitive mainly to changes in expected loss ratios. The Company adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts with similar risk features. The risk is managed through the use of reinsurance. Concentration of risk is provided by subclassification of unearned premium reserve by the types of insurance. For details refer to Note 6.

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 claim's exposures. However, given the uncertainty in establishing claims provision, it is likely that the outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR and RBNS.

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.

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 amount that would be required to settle the liability. 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. Deficits are recognized in profit or loss for the year. No shortfalls were identified between 2020 and 2019 and therefore no additional inexhaustible risk reserve was required.

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*

4. Risk management (Continued)

Principal financial instruments

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

	31.12.2021	31.12.2020
Cash and cash equivalents	236,948	649,774
Amount due from credit institutions	7,745,105	5,291,678
Other assets	156,610	197,374
Insurance and reinsurance receivables	2,097,023	1,553,906
Reinsurance assets (Except re-share in unearned premium provision)	84,760	84,760
Issued loans	57,200	-
Total financial assets	**10,377,646**	**7,777,492**
Other liabilities	549,726	606,420
Reinsurance liabilities	155,184	362,741
Insurance contract liabilities (Except unearned premium provision)	1,031,654	1,311,028
Lease liabilities	575,333	803,924
Total financial liabilities	**2,311,897**	**3,084,113**

IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Company has no financial assets or liabilities measured at fair value; accordingly, they are not presented under the IFRS 7 fair value measurement hierarchy.

Carrying amounts of financial assets and financial liabilities approximate their fair values.

The fair value of cash and cash equivalents was determined using level 1 measurement, fair values of other financial assets and liabilities were determined using level 2 and level 3 measurement.

Credit Risk

Credit risk is the risk of financial loss to the 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. In general, the credit risk of the company is related to the sale of insurance products (deferral payment) for consumers in the Georgian market and depends on the solvency 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. Limits are set for each customer individually.

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 best estimate of incurred losses in respect of trade and other receivables. These are related to collective loss components established for groups of similar assets in respect of overdue analyses.

4. Risk management (Continued)

Reinsurance

Despite the Company has a reinsurance practice, it is not exempt from direct obligations to policyholders and thus there is credit risk in the event of a transfer if any reinsurer fails to meet its obligations under such reinsurance agreements. The Company is not dependent on any reinsurer and the Company's operations are not substantially dependent on any reinsurance contract.

The Company assesses the financial condition of its reinsurers and monitors the concentration of credit risks in similar geographical areas, activities, or economic characteristics of the insurers to minimize the potential loss caused by the reinsurers' default.

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

31.12.2021	**Not past due**	**0-90 days**	**91-180 days**	**181-270 days**	**271-365 days**	**More than 365 days**	**Total**
Probability of losses	*0%*	*0%*	*10%*	*30%*	*50%*	*100%*	
Carrying amount	1,927,556	147,566	14,056	7,410	8,127	12,102	**2,116,817**
Provision for impairment	-	-	(1,406)	(2,222)	(4,064)	(12,102)	**(19,794)**
Net financial receivables	**1,927,556**	**147,566**	**12,650**	**5,188**	**4,063**	**-**	**2,097,023**

31.12.2020	**Not past due**	**0-90 days**	**91-180 days**	**181-270 days**	**271-365 days**	**More than 365 days**	**Total**
Probability of losses	*0%*	*0%*	*10%*	*30%*	*50%*	*100%*	
Carrying amount	1,312,233	140,475	45,725	35,379	70,562	1,185,410	**2,789,784**
Provision for impairment	-	-	(4,573)	(10,614)	(35,281)	(1,185,410)	**(1,235,878)**
Net financial receivables	**1,312,233**	**140,475**	**41,152**	**24,765**	**35,281**	**-**	**1,553,906**

Ageing analysis of subrogation receivables can be presented as follows:

31.12.2021	**Not past Due**	**0-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**121-365 days**	**More than 365 days**	**Total**
Probability of losses	*0%*	*0%*	*5%*	*10%*	*30%*	*50%*	*100%*	
Carrying amount	-	11,219	17,335	20,072	65,109	130,566	617,474	**861,775**
Provision for impairment	-	-	(868)	(2,007)	(19,533)	(65,283)	(617,474)	**(705,165)**
Net financial receivables	**-**	**11,219**	**16,467**	**18,065**	**45,576**	**65,283**	**-**	**156,610**

31.12.2020	**Not past Due**	**0-30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**121-365 days**	**More than 365 days**	**Total**
Probability of losses	*0%*	*0%*	*5%*	*10%*	*30%*	*50%*	*100%*	
Carrying amount	-	43,100	26,500	49,594	68,821	72,579	704,715	**965,309**
Provision for impairment	-	-	(1,325)	(4,959)	(20,646)	(36,290)	(704,715)	**(767,935)**
Net financial receivables	**-**	**43,100**	**25,175**	**44,635**	**48,175**	**36,289**	**-**	**197,374**

As at 31 December 2021 and 2020 other financial assets are presented under the category of "Neither past due, nor impaired"

4. Risk management (Continued)

Liquidity Risk

Liquidity risk arises from the Company's management of working capital and the finance charges and principal repayments on its debt instruments. Liquidity risk refers to the availability of sufficient funds to meet liabilities 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.

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:

2021	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities				
Other liabilities	549,726	-	-	**549,726**
Reinsurance liabilities	155,184	-	-	**155,184**
Insurance contract liabilities (Except unearned premium provision)	1,031,654	-	-	**1,031,654**
Lease liabilities	258,397	378,012	-	**636,409**
	1,994,961	**378,012**	**-**	**2,372,973**

2020	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities				
Other liabilities	606,420	-	-	**606,420**
Reinsurance liabilities	362,741	-	-	**362,741**
Insurance contract liabilities (Except unearned premium provision)	1,311,028	-	-	**1,311,028**
Lease liabilities	243,749	642,999	-	**886,748**
	2,523,938	**642,999**	**-**	**3,166,937**

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/liabilities – loans, because of the variable rate. In current period the Company does not have any assets/liabilities 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.

4. Risk management (Continued)

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

2021	GEL	USD	EUR	Total
Financial assets				
Cash and cash equivalents	234,101	2,847	-	**236,948**
Amount due from credit institutions	270,000	7,475,105	-	**7,745,105**
Other assets	156,610	-	-	**156,610**
Insurance and reinsurance receivables	1,190,602	876,862	29,559	**2,097,023**
Reinsurance assets (Except re-share in unearned premium provision)	84,760	-	-	**84,760**
Issued loans	57,200	-	-	**57,200**
	1,993,273	**8,354,814**	**29,559**	**10,377,646**
Financial liabilities				
Other liabilities	501,468	45,785	2,473	**549,726**
Reinsurance liabilities	-	147,885	7,299	**155,184**
Insurance contract liability (except Unearned premium provision)	1,031,654	-	-	**1,031,654**
Lease liabilities	18,526	556,807	-	**575,333**
	1,551,648	**750,477**	**9,772**	**2,311,897**
Open balance sheet position	**441,625**	**7,604,337**	**19,787**	

2020	GEL	USD	EUR	Total
Financial assets				
Cash and cash equivalents	403,344	246,430	-	**649,774**
Amount due from credit institutions	270,000	5,021,678	-	**5,291,678**
Other assets	197,374	-	-	**197,374**
Insurance and reinsurance receivables	491,340	1,044,390	18,176	**1,553,906**
Reinsurance assets (Except re-share in unearned premium provision)	84,760	-	-	**84,760**
	1,446,818	**6,312,498**	**18,176**	**7,777,492**
Financial liabilities				
Other liabilities	606,420	-	-	**606,420**
Reinsurance liabilities	-	362,741	-	**362,741**
Insurance contract liability (except Unearned premium provision)	1,311,028	-	-	**1,311,028**
Lease liabilities	62,053	741,871	-	**803,924**
	1,979,501	**1,104,612**	**-**	**3,084,113**
Open balance sheet position	**(532,683)**	**5,207,886**	**18,176**	

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.

4. Risk management (Continued)

Impact on net profit and equity based on asset values are as follows:

2021	**USD**		**EUR**	
	20%	**- 20%**	**20%**	**- 20%**
Profit/(loss)	1,520,867	(1,520,867)	3,957	(3,957)

2020	**USD**		**EUR**	
	20%	**- 20%**	**20%**	**- 20%**
Profit/(loss)	1,041,577	(1,041,577)	3,635	(3,635)

5. Prior period reclassifications

Management of the Company has made some changes in the financial statements for the year ended 31 December 2020. Specifically, management has made the following change – “Salaries and other employee benefits” were separated from “General and administrative expenses”. Impairment of receivables from subrogation were separated from “Impairment charges” and presented as “Insurance claims and loss adjustment expenses”, also “General and administrative expenses” were presented as “Other expenses”.

	2020 Before restatement	**Reclassification**	**2020 Restated**
General and administrative expenses	(3,014,289)	1,745,989	(1,268,300)
Salaries and other employee benefits	-	(1,745,989)	(1,745,989)
Impairment charge	(1,002,980)	270,436	(732,544)
Insurance claims and loss adjustment expenses	(3,179,121)	(270,436)	(3,449,557)

6. Net earned premium

2021	**Written premium**	**Re-share in written premium**	**Net written premium**	**Net change in UPR**	**Net earned premium**
Vehicle insurance	1,829,768	(28,793)	1,800,975	(72,433)	1,728,542
Compulsory insurance*	1,275,348	-	1,275,348	(19,942)	1,255,406
Health insurance	931,565	-	931,565	(47,103)	884,462
Financial risk insurance	359,795	-	359,795	(4,300)	355,495
Container insurance	314,165	-	314,165	5,942	320,107
Liability insurance	252,204	(84,376)	167,828	20,643	188,471
Cargo insurance	164,888	(49,845)	115,043	1,721	116,764
Property insurance	113,675	(28,701)	84,974	(35,763)	49,211
Agro insurance	112,071	-	112,071	-	112,071
Travel insurance	5,298	-	5,298	(563)	4,735
	5,358,777	**(191,715)**	**5,167,062**	**(151,798)**	**5,015,264**

6. Net earned premium (Continued)

2020	Written premium	Re-share in written premium	Net written premium	Net change in UPR	Net earned premium
Vehicle insurance	2,316,471	-	2,316,471	(149,505)	2,166,966
Compulsory insurance*	1,202,900	-	1,202,900	44,584	1,247,484
Health insurance	1,199,552	-	1,199,552	109,052	1,308,604
Container insurance	397,249	-	397,249	(818)	396,431
Financial risk insurance	291,672	-	291,672	(82,918)	208,754
Liability insurance	287,163	(92,898)	194,265	8,604	202,869
Cargo insurance	120,551	(22,434)	98,117	(2,739)	95,378
Property insurance	102,445	(68,248)	34,197	78,431	112,628
Travel insurance	5,192	-	5,192	3,080	8,272
	5,923,195	**(183,580)**	**5,739,615**	**7,771**	**5,747,386**

(*) - The company represents an insurer participating in the insurance system accomplished with the help of non-profit (non-commercial) legal entity “Compulsory Insurance center“.

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

7. Net insurance claims

	2021	2020
Insurance claims paid	(2,998,185)	(3,027,835)
Gross change in RBNS and IBNR	279,374	(487,355)
Income from subrogation and salvages	576,936	65,633
Insurance claims and loss adjustment expenses	**(2,141,875)**	**(3,449,557)**
Reinsurers' share in change of RBNS and IBNR	-	74,366
Insurance claims and loss adjustment expenses recovered from reinsurers	**-**	**74,366**
Net insurance claims	**(2,141,875)**	**(3,375,191)**

8. Acquisition costs

	2021	2020
Current year’s deferred acquisition costs (Note 16)	(389,943)	(367,363)
Expenses deferred from current year acquisition costs	162,018	156,769
Amortization of prior years’ deferred acquisition costs	(148,935)	(125,778)
	(376,860)	**(336,372)**

9. Other expenses

	2021	2020
Depreciation and amortization	(292,345)	(293,846)
Consultancy and audit expense*	(250,723)	(258,071)
Expenses of Compulsory insurance center	(215,883)	(175,832)
Short-term rent expense	(117,357)	(59,141)
Utilities and communication expenses	(95,038)	(86,257)
Marketing expenses	(88,979)	(34,097)
Maintenance and repair	(84,536)	(26,333)
Office expenses	(65,808)	(60,160)
Fuel expenses	(65,467)	(27,781)
Business trip expenses	(56,368)	(14,085)
Bank fees and commissions	(10,165)	(14,127)
Taxes other then income tax	(3,368)	(32,028)
Charity expenses	-	(20,000)
Other expenses	(116,520)	(166,542)
	(1,462,557)	**(1,268,300)**

(*) – Accrued audit fee expenses in the year 2021 amounted GEL55,525 (2020: GEL50,797).

10. Income tax expense

Income tax expense can be presented as follows:

	2021	2020
Current income tax	-	(48,112)
Effect of temporary differences	(10,862)	20,053
	(10,862)	**(28,059)**

	2021	2020
Loss before tax	**(430,616)**	**(967,567)**
Applicable tax rate	15%	15%
Theoretical income tax (expense)/benefit	64,592	145,135
Not recognized temporary differences	(64,592)	-
Effect of Permanent differences*	(10,862)	(173,194)
	(10,862)	**(28,059)**

(*) - The effect of the permanent difference arises from the differences between tax and financial bases of the reserve for impairment of bad and doubtful receivables.

10. Income tax expense (Continued)

Differed income tax asset/(liability) can be presented as follows:

Effect of temporary differences	31.12.2019	Recognized in profit/loss	31.12.2020	Recognized in profit/loss	31.12.2021
Property and equipment	**(9,606)**	746	**(8,860)**	(26,475)	**(35,335)**
Intangible assets	**(3,616)**	1,535	**(2,081)**	1,436	**(645)**
Right-of-use assets	**(157,809)**	59,024	**(98,785)**	27,154	**(71,631)**
Lease payables	**161,840**	(41,252)	**120,588**	(34,289)	**86,299**
Income tax asset/(liability)	**(9,191)**	**20,053**	**10,862**	**(32,174)**	**(21,312)**
Property and equipment	**-**	-	**-**	35,335	**35,335**
Intangible assets	**-**	-	**-**	646	**646**
Right-of-use assets	**-**	-	**-**	71,631	**71,631**
Lease payables	**-**	-	**-**	(86,300)	**(86,300)**
	-	**-**	**-**	**21,312**	**21,312**
Net income tax asset/(liability)	**(9,191)**	**20,053**	**10,862**	**(10,862)**	**-**

11. Cash and cash equivalents

	31.12.2021	31.12.2020
Cash at bank	171,716	629,333
Cash on hand	65,232	20,441
	236,948	**649,774**

Additional information about currencies of cash and cash equivalents is disclosed in Note 4.

12. Amounts due from credit institutions

	31.12.2021	31.12.2020
Principal:		
JSC "Procredit bank"	4,925,184	2,326,386
JSC "Bank of Georgia"	1,920,512	2,031,492
JSC "Halyk Bank Georgia"	889,520	925,320
Interest accrued:	9,889	8,480
	7,745,105	**5,291,678**

Amounts due from credit institutions are represented by placements in Georgian Banks.

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

13. Other assets

	31.12.2021	31.12.2020
Receivables from subrogation *	156,610	197,374
Prepaid expenses	124,660	124,660
Paid advances	43,530	55,047
Salvage property	21,770	88,924
Other	67,432	33,703
	414,002	**499,708**

(*) – Receivables form subrogation can be presented as follows:

	31.12.2021	31.12.2020
Receivables from subrogation	**861,775**	**965,309**
Impairment provision	(705,165)	(767,935)
Receivables from subrogation, net	**156,610**	**197,374**

Movement in provision for impairment of subrogation receivables can be presented as follows:

	2021	2020
Impairment provision at 1 January	**(767,935)**	**(497,499)**
Increase in impairment provision	(105,872)	(285,652)
Decrease of impairment provision	168,642	15,216
Impairment provision at 31 December	**(705,165)**	**(767,935)**

14. Insurance and reinsurance receivables

	31.12.2021	31.12.2020
Receivables from policyholders	2,088,469	2,731,507
Receivables from reinsurers	28,348	58,277
Receivables before impairment provision	**2,116,817**	**2,789,784**
Impairment provision	(19,794)	(1,235,878)
Receivables, net of impairment provision	**2,097,023**	**1,553,906**

Movement in provision for impairment can be presented as follows:

	2021	2020
Balance as at 1 January	**(1,235,878)**	**(494,385)**
Increase in impairment provision	468,824	(741,493)
Write off	747,260	-
Balance as at 31 December	**(19,794)**	**(1,235,878)**

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

15. Insurance contract liabilities and reinsurance assets

Insurance contract liabilities

	31.12.2021	31.12.2020
Insurance contract liabilities		
Unearned premium provision	1,750,461	1,587,707
Provision for reported but settled claims (RBNS)	798,190	1,059,225
Provision for incurred but not reported claims (IBNR)	233,464	251,803
	2,782,115	**2,898,735**
Reinsurance assets		
Re-share in unearned premium provision	43,836	32,880
Re-share in provision for reported but settled claims (RBNS)	76,129	76,559
Re-share in provision for incurred but not reported claims (IBNR)	8,631	8,201
	128,596	**117,640**
Insurance contract liabilities net of reinsurance		
Unearned premium provision	1,706,625	1,554,827
Provision for reported but settled claims (RBNS)	722,061	982,666
Provision for incurred but not reported claims (IBNR)	224,833	243,602
	2,653,519	**2,781,095**

Unearned premium provision

Gross Unearned premium provision	31.12.2021	31.12.2020
Balance at 1 January	**1,587,707**	**1,622,944**
Written premium	5,358,777	5,923,195
Earned premium	(5,196,023)	(5,958,432)
Balance at 31 December	**1,750,461**	**1,587,707**
Reinsurers' share in unearned premium provision		
Balance at 1 January	**32,880**	**60,346**
Reinsurers' share in written premium	191,715	183,580
Reinsurers share in earned premium	(180,759)	(211,046)
Balance at 31 December	**43,836**	**32,880**
Unearned premium provision net of reinsurance		
Balance at 1 January	**1,554,827**	**1,562,598**
Written premium, net	5,167,062	5,739,615
Earned premium, net	(5,015,264)	(5,747,386)
Balance at 31 December	**1,706,625**	**1,554,827**

Insurance contract liabilities and reinsurance assets – terms, assumptions, and sensitivities
Insurance contracts

(1) Terms and conditions

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. The provisions are refined consistently as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

15. Insurance contract liabilities and reinsurance assets (Continued)

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test we refer to Note 26 (Summary of accounting policies, Insurance Contract Liabilities).

(3) Expected loss estimation method (so-called triangle method)

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis. The tables show the reserves for both claims reported, and claims incurred but not yet reported and cumulative payments. In the tables below, the claims estimates are provided in GEL at the rate of exchange that applied at the day the claims were incurred.

Before the effect of reinsurance, the loss development table is:

	2018	2019	2020	2021
Accident year	4,729,509	3,877,202	3,822,131	2,840,568
One year later	4,285,392	3,570,664	3,610,757	
Two year later	4,284,989	3,559,700		
Three year later	4,385,570			
Current estimate of cumulative claims incurred	**4,385,570**	**3,559,700**	**3,610,757**	**2,840,568**
Accident year	(3,872,120)	(3,070,078)	(2,569,993)	(2,046,733)
One year later	(4,268,842)	(3,524,230)	(3,446,634)	
Two year later	(4,272,533)	(3,559,700)		
Three year later	(4,311,874)			
Cumulative payments to date	**(4,311,874)**	**(3,559,700)**	**(3,446,634)**	**(2,046,733)**
Gross outstanding claims provision per the statement of financial position	**73,696**	**-**	**164,123**	**793,835**
Current estimation of surplus	343,939	317,502	211,374	
	7%	**8%**	**6%**	

After the effect of reinsurance, the loss development table is:

	2018	2019	2020	2021
Accident year	4,719,621	3,866,808	3,737,371	2,755,808
One year later	4,285,392	3,570,664	3,610,757	
Two year later	4,284,989	3,559,700		
Three year later	4,385,570			
Current estimate of cumulative claims incurred	**4,385,570**	**3,559,700**	**3,610,757**	**2,755,808**
Accident year	(3,872,120)	(3,070,078)	(2,569,993)	(2,046,733)
One year later	(4,268,842)	(3,524,230)	(3,446,634)	
Two year later	(4,272,533)	(3,559,700)		
Three year later	(4,311,874)			
Cumulative payments to date	**(4,311,874)**	**(3,559,700)**	**(3,446,634)**	**(2,046,733)**
Gross outstanding claims provision per the statement of financial position	**73,696**	**-**	**164,123**	**709,075**
Current estimation of surplus	334,051	307,108	126,614	
	7%	**8%**	**3%**	

16. Differed acquisition costs

	2021	2020
At January 1	**164,795**	**133,804**
Current year deferred acquisition costs (Note 8)	389,943	367,363
Amortization (Note 8)	(376,860)	(336,372)
31 December	**177,878**	**164,795**

17. Intangible assets

Intangible assets of the Company are comprised from accounting and insurance softwares, with total net book values of GEL146,051 as at 31 December 2021 (as at 31 December 2020: GEL108,131). Accumulated amortization as at 31 December 2021 amounts to GEL132,317 (as at 31 December 2020: GEL97,728). Amortization expense for the year ended 31 December 2021 amounts to GEL34,589 (2020: GEL26,862).

18. Right-of-use assets and lease liabilities

The Company leases spaces for administrative office and service centers. Lease payments for all assets are fixed. The lease payments are nominated in GEL as well as in USD.

The renewal option of the agreement is implied through customary business practices. The management believes that it is reasonably certain to exercise the renewal options of administrative office and service centers leases.

The above mentioned lease agreements determine fixed lease payments for non-cancelable period. As the renewal option is implied through customary business practices the Company is using the same lease payments for the extended period.

Incremental rate for lease payments is 7.79% and 12.33%.

Movement in right-of-use assets can be presented as follows:

	2021	2020
1 January	**658,566**	**1,052,060**
Modification	-	(196,948)
Depreciation	(181,028)	(196,546)
31 December	**477,538**	**658,566**

Movement in lease liabilities can be presented as follows:

	2021	2020
1 January	**803,924**	**1,078,934**
Modification	-	(202,194)
Interest expense	53,429	72,488
Lease payments	(250,477)	(310,978)
VAT	42,270	59,084
Foreign exchange rate differences	(73,813)	106,590
31 December	**575,333**	**803,924**

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

19. Property and equipment

Historical cost	Land	Leasehold improvement	Technical equipment	Furniture and other equipment	Vehicles	Total
31.12.2019	**-**	**8,700**	**224,294**	**196,976**	**137,409**	**567,379**
Additions	-	39,395	19,684	4,991	21,843	**85,913**
Disposals	-	(7,132)	-	-	(19,810)	**(26,942)**
31.12.2020	**-**	**40,963**	**243,978**	**201,967**	**139,442**	**626,350**
Additions	74,040	18,512	6,169	2,790	23,790	**125,301**
Revaluation	132,983	-	-	-	-	**132,983**
31.12.2021	**207,023**	**59,475**	**250,147**	**204,757**	**163,232**	**884,634**
Accumulated depreciation						
31.12.2019	**-**	**(3,406)**	**(160,220)**	**(70,528)**	**(88,447)**	**(322,601)**
Depreciation	-	(9,427)	(21,097)	(16,879)	(23,035)	**(70,438)**
Disposals	-	3,726	-	-	8,952	**12,678**
31.12.2020	**-**	**(9,107)**	**(181,317)**	**(87,407)**	**(102,530)**	**(380,361)**
Depreciation	-	(13,241)	(22,714)	(17,006)	(23,767)	**(76,728)**
31.12.2021	**-**	**(22,348)**	**(204,031)**	**(104,413)**	**(126,297)**	**(457,089)**
Net book value						
31.12.2020	**-**	**31,856**	**62,661**	**114,560**	**36,912**	**245,989**
31.12.2021	**207,023**	**37,127**	**46,116**	**100,344**	**36,935**	**427,545**

20. Share capital

	Issued and fully authorized shares			
	31.12.2021	**31.12.2021**	**31.12.2020**	**31.12.2020**
	Quantity	**Nominal amount**	**Quantity**	**Nominal amount**
Ordinary shares	2,800	10,892,000	2,800	7,725,200
Nominal value of each share	3,890	3,890	2,759	2,759

21. Other liabilities

	31.12.2021	**31.12.2020**
Financial liabilities		
Deposited amounts	154,843	345,470
Commission payables	154,754	176,925
Other payables	240,129	84,025
Non-financial liabilities		
Taxes payable	415,611	49,944
Differed commission income	7,088	13,875
	972,425	**670,239**

22. Reinsurance liabilities

At 31.12.2021 liabilities to reinsurers are presented as follows: Malakut Insurance Brokers - 63%, LLC - Scor Perestrakhovaniye LLC - 28%, MAI Georgia Insurance Brokers LTD - 9%.

At 31.12.2020 liabilities to reinsurers are presented as follows: Malakut Insurance Brokers LLC - 56%, Scor Perestrakhovaniye LLC - 38% and MAI Georgia Insurance Brokers LTD - 6%.

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.

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

	2021	2020
Statement of comprehensive income	**Transactions with related parties**	**Transactions with related parties**
Commission income		
Other*	(455)	(43,948)
Other expenses		
Key management personnel compensation	(462,496)	(515,387)
Other*	(5,400)	(10,200)

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

	31.12.2021	31.12.2020
Statement of financial position	**Transactions with related parties**	**Transactions with related parties**
Insurance and reinsurance receivables		
Shareholder	-	1,245
Other*	68,182	83,645
Other assets		
Other*	19,310	4,702
Deferred acquisition costs		
Other*	35	15,799
Other liabilities		
Other*	28,877	26,249

(*) – Other represents Entities under common control and key management of the Company.

24. Commitments and contingencies

Legal cases

As at 31st December 2021 and 2020, the company has ongoing legal cases, where company is a defendant. The lawsuits are connected to claims, as well ass employee compensation. Disputed amount, considering all ongoing legal cases sums up GEL1,012,672 (2020: GEL693,100). The Company has reinsured part of the mentioned contingent liability with the total amount of GEL94,000 (2020: GEL158,340). The part of above metioned lawsuits are processing in trial court, and the other part – are appealed and awaiting for the appointment in court of appeal.

Based on estimating the trial court decision and the probability of final negative dession, 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.

Compliance with regulatory requirements

The Insurance State Supervision Service of Georgia imposes various requirements for insurance companies, one of which is to meet the requirements of supervisory capital. As of December 31, 2021 and 2020, the Company is failing to meet its regulatory capital requirements, which it is actively working to eliminate.

Management report

In accordance with the Law on accounting, reporting and auditing (article 7) the Company has an obligation to prepare and submit Management Report to the State Regulatory Authority, together with Independent Auditors’ Report no later than 1 October of the year following the reporting period. The Company has fulfilled this obligation at the date of issue of the financial statements.

25. Events after the reporting period

Russia – Ukraine war

Russian federation launched a full-scale invasion of Ukraine on 24 February 2022, which is ongoing. Due to these events, sanctions were imposed on some companies registered in the Russian Federation and financed by Russian investments. Management at this stage is unable to assess the impact (or potential impact) of this war on the Company's operations.

Sanctions were imposed on some companies registered in the Russian Federation and financed by Russian investments.

Due to the above-mentioned events, the Company is restricted with signing a new reinsurance agreement with an reinsurer registered in the Russian Federation and founded with Russian investments or extending the existing reinsurance agreement at the request of the Insurance Supervision Service. The Company was also instructed to develop a replacement plan for each of the risks issued under the current agreements with the reinsurers registered in the Russian Federation, according to which the requirements of Order # 33 of August 6, 2019 will be fully complied with. In case of violation of this Order, the Company will be fined.

The Company submitted the action plan to Insurance Supervision Service to replace the reinsurance agreements concluded with a reinsurer registered in the Russian Federation.

26. Significant accounting policies

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

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.

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."

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 31.12.2021	3.0976	3.504
Exchange rate as at 31.12.2020	3.2766	4.0233

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.

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.

26. Significant accounting policies (continued)

Intangible Assets

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.

Deferred 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.

Lease

Company as lessee

Identifying the lease

At the start of the contract, the Company should assess whether the contract as a whole is a lease, or whether it contains a lease. A contract is a lease agreement, or contains a lease, if the contract transfers control of the identified asset over a period of time in exchange for a refund. To determine whether a contract confers control over the use of an identified asset over a period of time, the Company should assess whether the customer has both of the following rights during the period of use:

- The right to receive actually the full benefit of the asset identified in the contract, and
- Right to direct the use of that identified asset.

Initial recognition

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

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

Leases are recognized on the Company's balance sheet as follows:

- An asset representing the right to use the underlying asset over the lease term;
- A liability for the obligation to pay the lease payments.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

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

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Company if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset is comprised:

- The amount of the initial measurement of the lease liability;
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and

26. Significant accounting policies (continued)

- the amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent measurement

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Right of use asset is amortized over 5 years.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate.

The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognized in profit or loss.

When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.
- The Company elects, by class of underlying asset, not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Determination of lease term

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

The Management applies judgement to determine the lease term when lease contracts include renewal options that are exercisable only by the Company. It considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Company reassesses the lease term if there is a significant event or a change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew, or to terminate the lease.

Determination of incremental borrowing rate (IBR)

IBR is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

The management applies judgement to estimate the IBR. The management uses an observable information to determine the base rate and adjustments for the lessee specific factors and the asset factors (the adjustment for security).

26. Significant accounting policies (continued)

Determination of lease payments

In Georgia it is customary that lease renewal option is implied through customary business practices and not all renewal options are documented within the lease agreements. In such cases, the initial measurement of the lease liability assumes the payment for renewal period will remain unchanged throughout the lease term.

Short-term leases and leases of low-value assets

The Company applies the recognition exemption for short-term leases (i.e. lease with a lease term of 12 months or less from the commencement date) and leases of low-value assets. Associated lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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.

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.

Receivables and payables related to insurance contracts

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

Insurance and reinsurance receivables are recognised based upon insurance policy terms. Reinsurance receivables primarily include balances due from reinsurance companies for ceded insurance liabilities.

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 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).

26. Significant accounting policies (continued)

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.

Insurance contract liabilities

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

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

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

The amount of provision 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 provisions for reported but not paid claims of insurers at the reporting date confirmed by the relevant statements.

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

Most of the Company's insurance contracts consist of medical and auto insurance. These types of insurances are mostly short-term. Therefore, Management believes that the calculation of the provision for this type of policy does not require actuarial calculations and is calculated and recorded according to the provisioning rates set by the insurance supervisor.

(iii) Unearned premium provision

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.

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).

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.

26. Significant accounting policies (continued)

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the term's 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.

(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.

26. Significant accounting policies (continued)

(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.

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.

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 liabilitie*s

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

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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. Income and expenses will not be offset in the statement of comprehensive income unless required by an accounting standard or interpretation specified in the Company's accounting policies.

Income and expense recognition

Written Premium

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Insurance premiums written reflect business incepted during the year, are shown before deduction of commission and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on daily pro rata basis.

Re-share in written premium

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

26. Significant accounting policies (continued)

Provision for unearned premiums

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 statement of comprehensive income in the order that revenue is recognised over the period of risk.

Benefits and claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received.

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries.

Staff costs and related contributions

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

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 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 the taxable entity where there is an intention to settle the balances on a net basis.

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except banks, insurance companies and microfinance organizations, for which the effective date is 1 January 2019. On 5 May 2018 amendment was made in tax code and the date was revised to January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated by grossing-up (1/85% *15%) the amount of distribution. The companies will be able to offset the corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividend distributions between Georgian resident companies will not be subject to corporate income tax.

Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

Provisions, Contingent Liabilities and Contingent Assets

Contingent liabilities are not reflected in the separate financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the notes to the separate financial statements with the exception of cases, when the outflow of economic benefits is unlikely.

26. Significant accounting policies (continued)

Contingent assets are not reflected in the separate financial statements, but the information on them is disclosed when inflow of economic benefits is probable. If economic benefits are sure to occur, an asset and related income are recognized in the separate financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the separate financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the Notes to the separate financial statements.

Events after the end of the reporting period

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