JSC PRIME INSURANCE

Financial Statements

Together with Independent Auditor's Report

Year ended 31 December 2019

Contents:

Tel: +995 32 254 58 45
bdo@bdo.ge
www.bdo.ge

2 Tarkhnishvili Street
Vere Business Center, 7th floor
0179 Tbilisi
Georgia

INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC PRIME INSURANCE

Opinion

We have audited the financial statements of **JSC PRIME INSURANCE**, (hereinafter - the Company) which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Ivane Zhuzhunashvili

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

Tbilisi, Georgia

8 May 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

	Note	2019	2018
Gross written premiums on insurance contracts		6,886,619	6,555,620
Reinsurer's share of gross written premium on insurance contracts		(304,285)	(247,588)
Net written premium		**6,582,334**	**6,308,032**
Changes in provision for unearned premiums		(206,605)	1,019,196
Changes in the re-insurers portion in provision for unearned premiums		(13,209)	(161,030)
Net insurance revenue	**5**	**6,362,520**	**7,166,198**
Reinsurance commission income		39,817	31,313
Total revenue		**6,402,337**	**7,197,511**
Insurance claims and loss adjustment expenses		(2,852,946)	(4,078,143)
Insurance claims and loss adjustment expenses recovered from reinsurers		506	(87,829)
Net insurance claims	**6**	**(2,852,440)**	**(4,165,972)**
Acquisition costs	7	(228,692)	(460,351)
General and administrative expenses	8	(2,683,814)	(2,322,216)
Impairment charge		(451,735)	(330,371)
Other expenses, net	9	(269,615)	(92,381)
Interest income, net		288,782	234,868
Exchange rate difference gain/(loss), net		174,783	(32,147)
Profit before tax		**379,606**	**28,941**
Income tax benefit/ (expense)	10	(176,586)	62,728
Total comprehensive income for the year		**203,020**	**91,669**

These financial statements were approved by management on 8 May 2020 and were signed on its behalf by:

Financial Director ______________________ M.Guruli

Notes on pages 9-39 are the integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(In GEL)

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JSC PRIME INSURANCE

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(In GEL)

	Note	31.12.2019	31.12.2018
Assets			
Property and Equipment	11	244,778	172,934
Right-of-use assets	12	1,052,060	-
Intangible assets	13	111,057	102,778
Deferred tax asset	10	-	114,159
Deferred acquisition costs	14	133,804	80,731
Reinsurance assets	15	70,740	83,443
Insurance and reinsurance receivables	16	2,022,407	1,921,176
Other assets	17	574,312	509,906
Amount due from credit institutions	18	5,201,663	4,880,156
Cash and cash equivalents	19	424,165	343,514
Total assets		**9,834,986**	**8,208,797**
Liabilities and equity			
Liabilities			
Lease liabilities	12	1,078,934	-
Deferred tax liability	10	9,191	-
Insurance contract liabilities	15	2,446,617	2,273,728
Reinsurance liabilities		124,989	303,013
Other liabilities	20	614,219	274,040
Total liabilities		**4,273,950**	**2,850,781**
Equity			
Share capital	21	7,725,554	7,725,554
Accumulated loss		(2,164,518)	(2,367,538)
Total equity		**5,561,036**	**5,358,016**
Total liabilities and equity		**9,834,986**	**8,208,797**

Notes on pages 9-39 are the integral part of these financial statements.

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2019

(In GEL)

	Share capital	Accumulated loss	Total
At 31 December 2017	**6,048,764**	**(2,459,207)**	**3,589,557**
Issue of share capital	1,676,790	-	**1,676,790**
Total comprehensive income for the year	-	91,669	**91,669**
At 31 December 2018	**7,725,554**	**(2,367,538)**	**5,358,016**
Total comprehensive income for the year	-	203,020	**203,020**
At 31 December 2019	**7,725,554**	**(2,164,518)**	**5,561,036**

Notes on pages 9-39 are the integral part of these financial statements.

JSC PRIME INSURANCE

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(In GEL)

	2019	2018
Cash flows from operating activities		
Cash received from written premium	6,199,320	7,044,385
Re-written premium paid	(493,143)	(804,105)
Paid claims and loss adjustment expenses	(3,247,977)	(4,016,835)
Commission income received form reinsurers	54,028	11,637
Subrogation income received	184,881	84,385
Acquisition costs paid	(193,802)	(232,288)
Employee benefits paid	(1,290,652)	(1,173,189)
Taxes paid (other than the income tax)	(425,944)	(441,461)
Bank fees paid	(9,917)	(14,602)
Rent paid	(123,425)	(170,588)
Consulting and audit fees paid	(59,759)	(9,215)
Communication expenses paid	(68,965)	(46,686)
Stationary expenses paid	(14,247)	(13,045)
Advertising and marketing expenses paid	(54,686)	(188,036)
Interest received from deposits	341,476	234,868
Amounts due from credit institutions	(361,142)	(1,369,152)
Other expenses paid	(207,029)	(306,779)
Net cash flows from/ (used in) operating activities	**229,017**	**(1,410,706)**
Cash flows from investing activities		
Property and equipment purchased	(150,015)	(56,670)
Disposal of property and equipment	-	13,576
Purchase of Intangible assets	(28,975)	(24,000)
Other prepaid expenses	-	(71,378)
Net cash used in investing activities	**(178,990)**	**(138,472)**
Cash flows from financing activities		
Interest paid on lease liability	(38,196)	-
Principal paid for lease liability	(36,759)	-
Issue of share capital	-	1,676,790
Net Cash flows from/ (used in) financing activities	**(74,955)**	**1,676,790**
Effect of changes in foreign exchange rate on cash and cash equivalents	105,579	(63,449)
Net Increase in cash and cash equivalents	**80,651**	**64,163**
Cash and cash equivalents at the beginning of year	**343,514**	**279,351**
Cash and cash equivalents at the end of year	**424,165**	**343,514**

Notes on pages 9-39 are the integral part of these financial statements.

1. General information

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

As at 31 December 2019 and 2018 founder and 100% shareholder of the Company is MERCURY EUROPE HOLDINGS (B 165504, Emile Reuter ave. N1 , L-2420, Luxemburg).

Ultimate shareholder and controlling party of the Company is Alia Babaeva (Azerbaijan) as at 31 December 2019 and 2018. 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 Zugdidi.

2. Basis of preparation

Statement of compliance

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

The Company keeps its books and records in Georgian Lari and the financial statements are also prepared in Georgian Lari. These financial statements are prepared based on accounting records of the Company.

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.

The preparation of 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. It also requires from management to exercise judgment in the most appropriate application in applying the accounting policies. Actual results may be different from currently made estimates. Adjustments that result changes in accounting estimates are recognized in the accounting period that they relate to. The areas where significant judgments and estimates have been made in preparing the financial Statements and their effect are disclosed in Note 3.

Significant accounting policies have been 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 is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Company in Georgia. The management believes that the going concern assumption is appropriate for the Company.

Change in accounting policies

a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Company that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Company's accounting policies are:

- *IFRS 16 Leases (IFRS 16)*

The Company adopted IFRS 16 with a transition date of 1 January 2019. The company has not required to restated comparative figures due to applying of new IFRS 16. Details of the impact IFRS 16 are disclosed in Note 22 below.

2. Basis of preparation (continued)

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

b) New standards, interpretations and amendments not yet effective

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

- *IAS 1 Presentation of Financial statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)*
- *IFRS 3 Business Combinations (Amendment – Definition of Business)*
- *Revised Conceptual Framework for Financial Reporting*
- *IFRS 17 Insurance contracts (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 2023, 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.

The Standard is effective from 01 January 2018. An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. Under the amendments that make up the deferral approach, an entity applies IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1 January 2023. The Company is currently assessing the possible impact of IFRS 9 on its financial statements

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

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

Estimates and assumptions

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

The estimation of the ultimate liability arising from claims made under general insurance contracts is the Company's most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims.

3. Critical accounting estimates and judgements (continued)

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

b) Impairment of insurance and reinsurance receivables

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

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

c) Determination of the lease term for the contracts, where the company is presented as lessee

At the commencement date, an entity assesses whether the lessee is reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. Examples of factors to consider include, but are not limited to:

(a) contractual terms and conditions for the optional periods compared with market rates, such as:

   (i) the amount of payments for the lease in any optional period;

   (ii) the amount of any variable payments for the lease or other contingent payments; and

   (iii) the terms and conditions of any options that are exercisable after initial optional periods

(b) significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(c) costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the lessee's needs, costs of integrating a new asset into the lessee's operations, or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location;

(d) the importance of that underlying asset to the lessee's operations, considering, for example, whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives; and

(e) conditionality associated with exercising the option (ie when the option can be exercised only if one or more conditions are met), and the likelihood that those conditions will exist

Details regarding to the lease terms for contracts where the company is preented as lessee are disclosed in the note 22.

d) Determination of incremental borrowing rate (IBR) for lease contracts, where the company is presented as lessee

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). The company applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

Details regarding to the incremental borrowing rate (IBR) for contracts where the company is preented as lessee are disclosed in the note 22.

3. Critical accounting estimates and judgements (continued)

e) 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

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

Capital management objectives, policies and approach

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

The capital management objectives are:

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

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

The 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.

4. Risk management (Continued)

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

The Company was in compliance with the externally imposed capital requirements at the end of the reporting period and no changes were made to its objectives, policies and processes from the previous year for managing 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 throughout the period from 1 January 2019 to 31 December 2020;
- The Regulatory Capital should be at least either RSM or GEL 7,200 throughout the period from 31 December 2020.

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 2019 , the Company was 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 and subsequent development of long-term claims. The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Company establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Company primarily uses the "loss ratio" to monitor its insurance risk. The loss ratio is defined as net insurance claims divided by net insurance revenue. The Company's loss ratios calculated on a net basis were as follows:

	2019	2018
Loss Ratio	45%	58%

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

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

4. Risk management (Continued)

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.

Although the company has a reinsurance practice, it is not exempt from the direct obligations imposed on policyholders, and thus there is an insurance risk even if the insurer fails to fulfill its obligations under such reinsurance agreements.

The company is not dependent on any reinsurer and the company's activities are not substantially dependent on any reinsurance contract

Sources of uncertainty in the estimation of future claim payments

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

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims 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 carrying amount that would be required if the relevant insurance liabilities were within the scope of IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets". If it is less, the insurer will recognize the entire difference in profit or loss and increase the carrying amount of the relevant insurance liabilities.

Financial Risk

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

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

Principal financial instruments

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

	31.12.2019	**31.12.2018**
Reinsurance assets (Except re-share in unearned premium provision)	10,394	9,888
Insurance and reinsurance receivables	2,022,407	1,921,176
Other assets	226,664	99,679
Amount due from credit institutions	5,201,663	4,880,156
Cash and cash equivalents	424,165	343,514
Total financial assets	**7,885,293**	**7,254,413**

4. Risk management (Continued)

	31.12.2019	31.12.2018
Lease liabilities	1,078,934	-
Insurance contract liabilities (Except unearned premium provision)	823,673	857,389
Reinsurance liabilities	124,989	303,013
Other liabilities	398,599	194,603
Total financial liabilities	**2,426,195**	**1,355,005**

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 its estimate of incurred losses in respect of trade and other receivables.The main components of this allowance are a specific loss component that relates to collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Reinsurance

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

4. Risk management (Continued)

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

	31.12.2019	31.12.2018
Receivables collectively determined to be impaired		
Not past due, nor impaired	**1,797,441**	**1,837,908**
Past due:		
0 - 90 days overdue	91,535	72,154
91 - 180 days overdue	65,537	31,201
181 - 270 days overdue	59,250	35,785
271 - 365 days overdue	65,943	169,107
More than 365 days overdue	437,086	73,621
Provision of imparment	(494,385)	(298,600)
	2,022,407	**1,921,176**

Ageing analysis of subrogation receivables can be presented as follows:

	31.12.2019	31.12.2018
Receivables collectively determined to be impaired		
Not past due, nor impaired	**3,764**	**6,063**
Past due:		
0-30 days overdue	29,726	7,832
31-60 days overdue	26,610	24,847
61-90 days overdue	20,667	85,853
91-120 days overdue	34,034	527
121-365 days overdue	250,941	3,717
More than 365 days overdue	358,420	626,823
Provision of imparment	(497,498)	(655,983)
	226,664	**99,679**

As at 31 December 2019 and 2018 other financial assets are presented under the category of “Neither past due, nor imapaired”

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.

As at 31 December 2019 an analysis of the liquidity is presented in the following table:

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities				
Lease liabilities	308,821	963,078	-	**1,271,899**
Insurance contract liabilities (Except unearned premium provision)	823,673	-	-	**823,673**
Reinsurance liabilities	124,989	-	-	**124,989**
Other liabilities	398,599	-	-	**398,599**
	1,656,082	**963,078**	**-**	**2,619,160**

As at 31 December 2018 the Company has no financial liabilities overdue more than 1 year.

4. Risk management (Continued)

Market Risk

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

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

- **Interest Rate Risk**

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.

The Company's exposure to foreign currency exchange rate risk as at 31 December 2019 is presented in the table below:

31.12.2019	**GEL**	**USD**	**EUR**	**Total**
Financial assets				
Reinsurance assets (Except re-share in unearned premium provision)	10,394	-	-	**10,394**
Insurance and reinsurance receivables	942,474	1,076,031	3,902	**2,022,407**
Other assets	226,664	-	-	**226,664**
Amount due from credit institutions	1,843,918	3,357,745	-	**5,201,663**
Cash and cash equivalents	396,504	27,661		**424,165**
	3,419,954	**4,461,437**	**3,902**	**7,885,293**
Financial liabilities				
Lease liabilities	103,155	975,779	-	**1,078,934**
Insurance contract liability (except Unearned premium provision)	823,673	-	-	**823,673**
Reinsurance liabilities	4,872	120,117	-	**124,989**
Other liabilities	398,599	-	-	**398,599**
	1,330,299	**1,095,896**	**-**	**2,426,195**
Open balance sheet position	**2,089,655**	**3,365,541**	**3,902**	

The Company's exposure to foreign currency exchange rate risk as at 31 December 2018 is presented in the table below:

	GEL	**USD**	**EUR**	**Total**
Financial assets				
Reinsurance assets (Except re-share in unearned premium provision)	9,888	-	-	**9,888**
Insurance and reinsurance receivables	964,338	922,169	34,669	**1,921,176**
Other assets	99,679	-	-	**99,679**
Amount due from credit institutions	2,883,732	1,996,424	-	**4,880,156**
Cash and cash equivalents	239,287	104,227		**343,514**
	4,196,924	**3,022,820**	**34,669**	**7,254,413**
Financial liabilities				
Insurance contract liability (except Unearned premium provision)	857,389	-	-	**857,389**
Reinsurance liabilities	7,295	295,718	-	**303,013**
Other liabilities	194,603	-	-	**194,603**
	1,059,287	**295,718**	**-**	**1,355,005**
Open balance sheet position	**3,137,637**	**2,727,102**	**34,669**	

4. Risk management (Continued)

Currency risk sensitivity

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

Impact on net profit and equity based on asset values as at 31 December 2019 and 2018:

2019	USD		EUR	
	20%	- 20%	20%	- 20%
Profit/(loss)	673,108	(673,108)	780	(780)

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

5. Net earned premium

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

2019	Written premium	Re-share in written premium	Net written premium	Net change in UPR	Net earned premium
Compulsory insurance*	2,261,523	-	2,261,523	(29,570)	2,231,953
Health insurance	1,723,242	-	1,723,242	111,920	1,835,162
Vehicle insurance	1,556,066	-	1,556,066	(200,403)	1,355,663
Container insurance	399,959	-	399,959	3,699	403,658
Liability insurance	366,309	(104,092)	262,217	(55,045)	207,172
Property insurance	338,971	(186,028)	152,943	8,046	160,989
Financial risk insurance	159,595	-	159,595	(60,279)	99,316
Cargo insurance	61,221	(14,165)	47,056	(222)	46,834
Travel insurance	19,733	-	19,733	2,040	21,773
	6,886,619	**(304,285)**	**6,582,334**	**(219,814)**	**6,362,520**

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

5. Net earned premium (Continued)

(*) - 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.

6. Net insurance claims

Net insurance claims can be presented as follows:

	2019	2018
Insurance claims paid	(3,466,800)	(4,127,311)
Gross change in RBNS and IBNR	33,716	(170,559)
Income from Regress and salvages	580,138	219,727
Insurance claims and loss adjustment expenses	**(2,852,946)**	**(4,078,143)**
Reinsurers' share in change of RBNS and IBNR	506	(87,829)
Insurance claims and loss adjustment expenses recovered from reinsurers	**506**	**(87,829)**
Net insurance claims	**(2,852,440)**	**(4,165,972)**

7. Acquisition costs

Acquisition costs can be presented as follows:

	2019	2018
Current year’s deferred acquisition costs (Note 14)	(281,765)	(296,316)
Expenses deferred from current year acquisition costs	132,235	54,506
Amortization of prior years’ deferred acquisition costs	(79,162)	(218,541)
	(228,692)	**(460,351)**

8. General and administrative expenses

General and administrative expenses can be presented as follows:

	2019	2018
Employee benefits	(1,668,030)	(1,461,002)
Consultancy and audit expense*	(250,244)	(131,632)
Rent expense	(184,009)	(198,958)
Depreciation and amortisation	(166,576)	(74,149)
Utilities and communication expenses	(71,971)	(54,367)
Marketing expenses	(49,725)	(203,102)
Fuel expenses	(32,907)	(25,518)
Bank fees	(9,926)	(14,856)
Representative expenses	(2,730)	(43,392)
Other	(247,696)	(115,240)
	(2,683,814)	**(2,322,216)**

(*)- Accrued expenses under the subheading “Consultiancy and audit expense” in 2019 include audit fee expenses with the amounts of GEL44,360 (2018: GEL3,000).

9. Other expenses, net

Other expenses, net can be presented as follows:

	2019	2018
Other expenses		
Expenses of Compulsory insurance center	(260,397)	(214,283)
Other	(9,218)	-
Other income		
Debt written off	-	99,769
Gain from sale of fixed assets	-	13,118
Other	-	9,015
	(269,615)	**(92,381)**

10. Income tax benefit/ (expense)

Income tax benefit/(expense) can be presented as follows:

	2019	2018
Current tax	(53,236)	-
Effect of temporary differences	(123,350)	62,728
	(176,586)	**62,728**

	2019	2018
Profit before tax	**379,606**	**28,941**
Applicable tax rate	15%	15%
Theoretical income tax	**(56,941)**	**(4,341)**
Prior year unrecognized tax loss	-	72,401
Effect of Permanent differences	(119,645)	(5,332)
	(176,586)	**62,728**

Differed income tax asset can be presented as follows:

Effect of temporary differences	31.12.2017	Recognized in profit/ (loss)	31.12.2018	Recognized in profit/ (loss)	31.12.2019
Property and equipment	**(6,584)**	31	**(6,553)**	(3,053)	**(9,606)**
Intangible assets	**(5,918)**	1,048	**(4,870)**	1,254	**(3,616)**
Insurance and reinsurance receivables	**-**	44,790	**44,790**	(44,790)	**-**
Tax loss carry forward	**136,334**	(55,542)	**80,792**	(80,792)	**-**
Right-of-use assets	**-**	-	**-**	(157,809)	**(157,809)**
Lease liabilities	**-**	-	**-**	161,840	**161,840**
Income tax asset/ (liability)	**123,832**	**(9,673)**	**114,159**	**(123,350)**	**(9,191)**
Unrecognized temporary differences					
Tax loss carry forward	**(72,401)**	72,401	**-**	-	**-**
Income tax asset/ (liability)	**51,431**	**62,728**	**114,159**	**(123,350)**	**(9,191)**

11. Property and equipment

Property and equipment can be presented as follows:

Historical cost	Leasehold improvement	Technical equipment	Furniture and other equipment	Vehicles	Total
31.12.2017	**69,796**	**174,586**	**95,694**	**129,496**	**469,572**
Additions	4,395	17,840	10,691	19,813	**52,739**
Disposals	-	-	-	(11,900)	**(11,900)**
31.12.2018	**74,191**	**192,426**	**106,385**	**137,409**	**510,411**
Additions	8,699	31,868	99,130	-	**139,697**
Disposals	(74,190)	-	(8,539)	-	**(82,729)**
31.12.2019	**8,700**	**224,294**	**196,976**	**137,409**	**567,379**
Accumulated depreciation					
31.12.2017	**(62,030)**	**(126,862)**	**(52,780)**	**(48,393)**	**(290,065)**
Depreciation	(2,767)	(15,728)	(8,958)	(27,297)	**(54,750)**
Disposals	-	-	-	7,338	**7,338**
31.12.2018	**(64,797)**	**(142,590)**	**(61,738)**	**(68,352)**	**(337,477)**
Depreciation	(3,381)	(17,630)	(12,442)	(20,095)	**(53,548)**
Disposals	64,772	-	3,652	-	**68,424**
31.12.2019	**(3,406)**	**(160,220)**	**(70,528)**	**(88,447)**	**(322,601)**
Net book value					
31.12.2018	**9,394**	**49,836**	**44,647**	**69,057**	**172,934**
31.12.2019	**5,294**	**64,074**	**126,448**	**48,962**	**244,778**

As at 31 December 2018 according to the agreement signed between the Company and JSC Bank of Georgia, dated as 8 and 21 May, 2018, N PE 4225818 – D, three vehicle owned by the company with total net book values of GEL52,463 are pledged for collateral.

12. Right-of-use assets

The Company leases spaces for administrative office and service centers. Lease paymanets 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.

12. Right-of-use assets (Continued)

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

Right-of-use assets	**2019**
At 1 January 2019	**39,042**
Additions	1,102,351
Amortization	(89,333)
At 31 December 2019	**1,052,060**

Movement in lease liabilities can be presented as follows:

Lease liabilities	**2019**
At 1 January 2019	**39,042**
Additions	1,102,351
Interest expense	38,196
Lease payments	(74,955)
Foreign exchange rate differences	(25,700)
At 31 December 2019	**1,078,934**

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

13. Intangible assets

Intangible assets of the Company are comprised from accounting and insurance softwares, with total net book values of GEL111,057 as at 31 December 2019 (as at 31 December 2018: GEL102,778). Accumulated amortization as at 31 December 2019 amounts to GEL70,866 (as at 31 December 2018: GEL47,171). Amortization expense for the year ended 31 December 2019 amounts to GEL23,695 (2018: GEL19,399).

14. Differed acquisition costs

Differed acquisition costs can be presented as follows:

	2019	**2018**
At January 1	**80,731**	**244,766**
Current year deferred acquisition costs (Note 7)	281,765	296,316
Amortization (Note 7)	(228,692)	(460,351)
31 December	**133,804**	**80,731**

15. Insurance contract liabilities and reinsurance assets

Insurance contract liabilities and reinsurance assets can be presented as follows:

	31.12.2019	31.12.2018
Insurance contract liabilities		
Unearned premium provision	1,622,944	1,416,339
Provision for reported but settled claims (RBNS)	550,836	594,356
Provision for incurred but not reported claims (IBNR)	272,837	263,033
	2,446,617	**2,273,728**
Reinsurance assets		
Re-share in unearned premium provision	60,346	73,555
Re-share in provision for reported but settled claims (RBNS)	-	-
Re-share in provision for incurred but not reported claims (IBNR)	10,394	9,888
	70,740	**83,443**
Insurance contract liabilities net of reinsurance		
Unearned premium provision	1,562,598	1,342,784
Provision for reported but settled claims (RBNS)	550,836	594,356
Provision for incurred but not reported claims (IBNR)	262,443	253,145
	2,375,877	**2,190,285**

Unearned premium provision

Gross Unearned premium provision	**31.12.2019**	**31.12.2018**
Balance at 1 January	**1,416,339**	**2,435,535**
Written premium	6,886,619	6,555,620
Earned premium	(6,680,014)	(7,574,816)
Balance at 31 December	**1,622,944**	**1,416,339**
Reinsurers' share in unearned premium provision		
Balance at 1 January	**73,555**	**234,585**
Reinsurers' share in written premium	304,285	247,588
Reinsurers share in earned premium	(317,494)	(408,618)
Balance at 31 December	**60,346**	**73,555**
Unearned premium provision net of reinsurance		
Balance at 1 January	**1,342,784**	**2,200,950**
Written premium, net	6,582,334	6,308,032
Earned premium, net	(6,362,520)	(7,166,198)
Balance at 31 December	**1,562,598**	**1,342,784**

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 provision including the liability adequacy test we refer to note 26 – Significant accounting policies, Insurance Contract Liabilities)

16. Insurance and reinsurance receivables

Insurance and reinsurance receivables can be presented as follows:

	31.12.2019	31.12.2018
Receivables from policyholders	2,467,478	2,168,432
Receivables from reinsurers	49,314	51,344
	2,516,792	**2,219,776**
Impairment provision	(494,385)	(298,600)
	2,022,407	**1,921,176**

Movement in provision for impairment can be presented as follows:

	2019	2018
Balance as at 1 January	**(298,600)**	**(119,575)**
Increase in provision for impairment	(195,785)	(179,025)
Balance as at 31 December	**(494,385)**	**(298,600)**

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

17. Other assets

Other assets can be presented as follows:

	31.12.2019	31.12.2018
Receivables from subrogation *	226,664	99,679
Prepaid expenses	124,660	124,660
Paid advances	102,485	126,167
Salvage property	89,162	66,095
Prepaid expenses for lawsuit	7,102	66,107
Other	24,239	27,198
	574,312	**509,906**

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

	31.12.2019	31.12.2018
Receivables from subrogation	**724,162**	**755,662**
Impairment provision	(497,498)	(655,983)
Receivables from subrogation, net	**226,664**	**99,679**

17. Other assets (Continued)

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

	2019	2018
Impairment provision at 1 January	**(655,983)**	**(504,637)**
Increase in impairment provision	(212,949)	(151,346)
Write off receivables from subrogation	371,434	-
Impairment provision 31 December	**(497,498)**	**(655,983)**

18. Amounts due from credit institutions

Amounts due from credit institutions can be presented as follows:

	31.12.2018	31.12.2018
Principal:		
JSC "Procredit bank"	1,803,695	-
JSC "Bank of Georgia"	1,777,974	2,059,492
JSC "Halyk Bank Georgia"	1,113,540	940,000
JSC "Liberty Bank"	500,000	1,000,000
JSC "ISBANK Georgia"	-	834,575
Interest accrued:	6,454	46,089
	5,201,663	**4,880,156**

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.

19. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	31.12.2019	31.12.2018
Cash at bank	395,467	325,618
Cash on hand	28,698	17,896
	424,165	**343,514**

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

20. Other liabilities

Other liabilities can be presented as follows:

	31.12.2019	31.12.2018
Financial liabilities		
Commission payables	164,624	132,390
Deposited amount	122,870	-
Trade payables	67,196	58,268
Other payables	43,909	3,945
Non-financial liabilities		
Taxes payable	180,812	54,439
Differed commission income	34,808	24,998
	614,219	**274,040**

21. Share capital

Share Capital can be presented as follows:

	Authorized shares	
	31.12.2019	31.12.2018
	Quantity	Quantity
ordinary shares	2,800	2,800
Nominal value of each share	2,759	2,759

	Issued and fully paid shares	
	Quantity	Amount
31.12.2017	**2,800**	**6,048,000**
Change in nominal value of share	-	1,677,554
31.12.2018	**2,800**	**7,725,554**
Change in nominal value of share	-	-
31.12.2019	**2,800**	**7,725,554**

22. Change in accounting policies

The Company adopted IFRS 16 with a transition date of 1 January 2019. Effect of adoption of new standard does not require to recognize the effect of change in the opening equity balances at the date of initial application (1 January 2019). Thus, Comperative figures of the financial statements are not restated.

Effective 1 January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Company does not have significant leasing activities acting as a lessor.

Transition Method and Practical Expedients Utilised

The Company elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date;

(b) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases.

On adoption of IFRS 16, the Company recognised right-of-use assets and lease liabilities as follows:

Classification under IAS 17	Right-of-use assets	Lease liabilities
Operating leases	Space of administrative office and service centers: Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.	Measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at 1 January 2019. The Company's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions (the same term and the same collateral). The weighted-average rate applied was 7.79%-12.33%.

22. Change in accounting policies (Continued)

The effect of adoption IFRS 16 as at 1 January 2019 (increase/decrease) is as follows:

		As presented 31.12.2018	IFRS 16	01.01.2019
Assets				
Right-of-use assets	(a)	-	39,042	39,042
Liabilities				
Lease liability	(b)	-	39,042	39,042

(a) Right of use asset was increased by the effect of the agreements previously classified as operating lease

(b) The following table reconciles the minimum lease commitments disclosed in the Company's 31 December 2018 annual financial statements to the amount of lease liabilities recognized on 1 January 2019 in accordance with IFRS 16:

	01.01.2019
Minimum operating lease commitment at 31 December 2018	-
Plus: Minimum operating lease commitment at 1 January 2019	192,767
Less: short-term leases not recognised under IFRS 16	(179,722)
Less: low value leases not recognised under IFRS 16	(3,420)
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(13,458)
Less: prepayments under under IAS 17	-
Plus: effect of extension options reasonably certain to be exercised	42,875
Lease liability as at 1 January 2019	**39,042**

23. Transactions with related parties

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

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

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

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

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

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

23. Transactions with related parties (Continued)

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

	2019	2018
Statement of comprehensive income	**Transactions with related parties**	**Transactions with related parties**
Key management personnel compensation	(515,387)	(343,417)
Commission income		
Other*	(55,037)	(81,743)
General and administrative expenses		
Other*	(15,600)	(11,488)
Shareholder	-	(9,688)

	31.12.2019	31.12.2018
Statement of financial position	**Transactions with related parties**	**Transactions with related parties**
Insurance and reinsurance receivables		
Shareholder	64	64
Other*	455	1,273
Other assets		
Other*	5,494	2,300
Deferred acquisition costs		
Other*	25,149	94,677
Other liabilities		
Other*	78,168	60,950

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

24. Commitments and contingencies

Legal cases

As at 31st December 2019, 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 GEL524,000. The Company has reinsured part of the mentioned contingent liability with the total amount of USD94,000 equivalent in GEL. 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.

24. Commitments and contingencies (Continued)

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 not fulfilled this obligation at the date of issue of the financial statements.

25. Events after the reporting period

In the end of 2019 year New Corona virus (COVID-19) was spread in China. Though cases were reported to the World Health Organization on 31 December 2019, its announcement of coronavirus as a global health emergency was not made until 31 January 2020 as Significant development and spread of the coronavirus did not take place until January 2020.

The World Health Organization has declared the rapidly spreading coronavirus outbreak a pandemic as of March 11, 2020.

As of 21 March 2020, the Government of Georgia announced state of emergency for the reason to prevent spreading the virus. As of 31 March 2020, quarantine regime activated in Georgia. As a result of this traveling within and between cities and municipalities on the territory of Georgia was significantly restricted. Also, restrictions were imposed on economic activities for many sectors.

From March 2020, the Company transferred all its employees to work remotely and continues its operating activity continuously offering its services to the clients. The management believes that the ability of the Company to remain a going concern is not under question, however the management cannot assess future possible effects of the pandemic on the financial statements of the Company.

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".

At 31 December 2019 and 2018 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 31.12.2019	2.8677	3.2095
Exchange rate as at 31.12.2018	2.6766	3.0701

26. Significant accounting policies (continued)

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.

Intangible Assets

Accounting Software

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

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

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.

26. Significant accounting policies (continued)

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 of receivables and payables as amounts due to and from agents, brokers and insurance contract holders.

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

(i) Salvage and subrogation reimbursements

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

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

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

26. Significant accounting policies (continued)

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 provisions are recognized as libilities in the statements of financial positions. The liabilities are not discounted for the time value of money.

(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)

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

(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.

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

26. Significant accounting policies (continued)

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.

(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.

26. Significant accounting policies (continued)

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

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

Offsetting

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

Current and deferred income tax

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However,

26. Significant accounting policies (continued)

the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

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

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

***The* Company as lessee**

The Company adopted IFRS 16 with a transition date of 1 January 2019. Effect of adoption of new standard does not require to recognize the effect of change in the opening equity balances at the date of initial application (1 January 2019). Thus, Comperative figures of the financial statements are not restated. Additional Details are disclosed in note 22.
The following policies apply subsequent to the date of initial application, 1 January 2019.

Identifying the lease

A contract is, or contains, a lease when it conveys the right to use an underlying asset for a period of time, in exchange for consideration. At inception of a contract, the Company assesses whether it meets the two following cumulative conditions to be qualified as a lease:

- its execution involves the use of an identified asset, and
- it conveys the right to direct the use of that identified asset.

Initial recognition

All leases are accounted for by recognising a right-of-use assets 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 assets at cost. The cost of the right-of-use assets is comprised:

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

26. Significant accounting policies (continued)

- initial direct costs incurred; and
- 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 amortised 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.

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 amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised 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.

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

26. Significant accounting policies (continued)

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).

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.

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.

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.

26. Significant accounting policies (continued)

Events after the end of the reporting period

Events after the end of the Reporting Period and events before the date of separate financial statements authorization for issue that provide additional information about the Company's separate 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 separate financial statements when material