

ARDI INSURANCE JSC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

Statement of management's responsibilities.....	3
Independent auditor's report	4-6
Financial Statements	
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10-52

These financial statements are presented in GEL.

Decimal symbol is dot (".") and digit-grouping symbol is comma (",")

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the financial statements that present fairly the financial position of Ardi Insurance JSC (the "Company") at 31 December 2019 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:


- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2019 were approved by management on 30 April 2020.

On behalf of the Management Board:



Besik Natenadze
Director



Tamar Kopilashvili
Chief Accountant

RSM Georgia

85, Z.Paliashvili str
Tbilisi 0162, Georgia

T +995 (32) 255 88 99

F +995 (32) 255 88 99

www.rsm.ge

INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT AND SHAREHOLDERS OF ARDI INSURANCE JSC

Opinion

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

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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor's responsibilities relating other information;

The Law of Georgia on Accounting, Reporting and Auditing has explicitly required in Clause 10 of Article 7 that "PIE and enterprises of the first and second categories shall provide the management report to an Auditor/ Audit Firm. The Auditor/ Audit Firm according to Paragraph 6 and Paragraph 7 ((c) and (g)) of this Article will express its opinion on the management report.

Management is responsible for the preparation of management report and the same will be available to us after the date of this audit report. As per the said regulations the other information will comprise of;

- Entity's future development plans;
- Review of the research and development performed by the entity;
- Information on the branches of an entity;
- Review of the entity's credit, market, liquidity and cash flow risks and mechanisms for their management;
- Detailed information on the acquisition of its own shares;
- Enterprise goal and policy with respect to financial risk management and;
- Compliance with other Articles of the law of Georgia on Accounting, Reporting and Auditing (if applicable on the entity)

We will not express any form of assurance conclusion on management report. In connection with our audit of the financial statements, our responsibility will be limited to read the other information and, in doing so, we will consider whether the other information is materially consistent with the financial statements, regulatory requirements and in accordance with our knowledge obtained in the audit.

Other Matter Paragraph

Refer to the section "Auditor's responsibilities relating other information" of this audit report and as per the requirements of Law of Georgia on Accounting, Reporting and Auditing, the management letter need to be written and be read in conjunction with these financial statements. The management report will be available to us after the signing of this audit report.

As the dates of approval of both these documents (financial statements & management report) will be different and if any material subsequent event occurs from the date of approval of these financial statements and till the date of management report than the management report may materially differ with these financial statements. However this material subsequent event will be reported in separate section of management report.

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 International Financial Reporting Standards, 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

30 April 2020

RSM Georgia

Managing Partner: Giorgi Kvinikadze

RSM Georgia



ARDI INSURANCE JSC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019	2018
Gross premiums		47,802,076	37,599,700
Premiums ceded to reinsurers		(4,138,006)	(3,692,931)
Net premiums		43,664,070	33,906,769
Changes in unearned premium reserve		(3,446,473)	(2,017,515)
Changes in unearned premium reserve ceded to reinsurers		144,267	(274,800)
Net insurance revenue	4	40,361,864	31,614,454
Interest income	5	695,579	577,098
Commission income	6	1,214,133	477,560
TOTAL REVENUE		42,271,576	32,669,112
Insurance benefits and claims paid	7	(32,448,707)	(21,544,498)
Claims ceded to reinsurers	7	5,146,732	1,032,700
Changes in other insurance reserves	17	332,741	(1,174,424)
Changes in other insurance reserves ceded to reinsurers	17	(631,979)	576,537
Income from subrogation and recoveries	8	2,418,941	1,112,526
Income from subrogation and recoveries ceded to reinsurers	8	(476,587)	(191,066)
Net benefits and claims		(25,658,859)	(20,188,225)
Commission expenses	9	(4,343,929)	(3,262,254)
General and administrative expenses	10	(8,375,129)	(6,597,786)
Marketing expenses	11	(1,006,355)	(850,175)
Impairment and write off (expense) / recovery	12	(624,071)	28,688
Interest expense	5	(398,126)	(188,695)
Other income and expenses, net		187,225	148,327
Net foreign exchange gain / (loss)		88,631	32,777
PROFIT BEFORE TAX		2,140,963	1,791,769
Income tax benefit / (expense)	13	84,702	(168,004)
PROFIT FOR THE YEAR		2,225,665	1,623,765



Besik Natenadze
Director


Tamar Kopilashvili
Chief Accountant

ARDI INSURANCE JSC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	2019	2018
Property and equipment	14	2,423,385	1,581,174
Intangible assets	15	345,796	286,358
Investment property	16	762,800	935,775
Deferred acquisition costs	9	2,014,673	1,638,979
Reinsurance assets	17	7,274,393	7,762,105
Other assets	18	2,490,283	2,893,329
Insurance and reinsurance receivables	19	36,950,711	29,132,196
Amounts due from credit institutions	20	6,601,895	5,425,131
Cash and cash equivalents	20	1,356,756	1,805,996
TOTAL ASSETS		60,220,692	51,461,043
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	3,485,210	2,600,000
Revaluation surplus		158,907	158,907
Retained earnings		7,409,527	5,538,352
TOTAL EQUITY		11,053,644	8,297,259
LIABILITIES			
Liabilities from insurance contracts	17	30,283,295	27,169,563
Other insurance liabilities	22	13,506,877	11,423,928
Deferred commission income from reinsurance contracts	6	254,848	265,491
Borrowings and lease liabilities	23	3,361,424	2,448,794
Trade and other payables	24	1,508,961	1,186,045
Deferred tax liability	13	3,248	194,130
Current income tax		248,395	475,833
TOTAL LIABILITIES		49,167,048	43,163,784
TOTAL EQUITY AND LIABILITIES		60,220,692	51,461,043



Besik Natenadze
Director




Tamar Kopilashvili
Chief Accountant

ARDI INSURANCE JSC
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

STATEMENT OF CHANGES IN EQUITY


	Share capital	Revaluation surplus	Retained earnings	Total
At 1 January 2018	2,600,000	158,907	3,914,587	6,673,494
Profit for the year	-	-	1,623,765	1,623,765
At 31 December 2018	2,600,000	158,907	5,538,352	8,297,259
Adjustment for change in accounting policy (note 2.B)	-	-	(159,773)	(159,773)
At 1 January 2019	2,600,000	158,907	5,378,579	8,137,486
Issue of ordinary shares	885,210	-	-	885,210
Profit for the year	-	-	2,225,665	2,225,665
Dividends paid	-	-	(194,717)	(194,717)
At 31 December 2019	3,485,210	158,907	7,409,527	11,053,644


 Besik Natenadze
 Director


 Tamar Kopilashvili
 Chief Accountant

STATEMENT OF CASH FLOWS

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (insurance premium)		42,665,512	33,490,044
Payments to reinsurers		(1,508,288)	(2,389,506)
Net receipts of premiums	4	41,157,224	31,100,538
Payments for insurance claims		(30,943,337)	(20,496,291)
Reimbursements from reinsurers and subrogation		3,343,423	1,026,460
Net payments for insurance claims	17	(27,599,914)	(19,469,831)
Payments for acquisition costs	9	(1,048,618)	(656,774)
Payments to suppliers and employees		(9,520,461)	(8,024,214)
Net cash flow generated from operations		2,988,231	2,949,719
Interest paid	5	(287,050)	(176,290)
Taxes paid	10	(3,224,077)	(2,169,700)
Net cash generated by / (used in) operating activities		(522,896)	603,729
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed and intangible assets	15	(158,195)	(1,550)
Proceeds from sale of property, plant and equipment	14	144,900	7,000
Loans issued	18	(2,141,145)	(77,000)
Repayment of loans issued	18	2,195,781	544,924
Interest received	5	441,366	537,363
Net cash generated by investing activities		482,707	1,010,737
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of new borrowings	23	4,096,782	3,103,195
Repayment of borrowings	23	(4,198,665)	(1,952,633)
Proceeds from issue of shares	21	885,210	-
Dividends paid	5	(194,717)	-
Net cash generated by financing activities		588,610	1,150,562
CASH AND CASH EQUIVALENTS			
At 1 January		7,167,916	4,273,337
Net increase in the year		548,421	2,765,028
Effect of exchange rate changes on cash and cash equivalents held		191,969	129,551
At 31 December	20 b	7,908,306	7,167,916
COMPRISING			
Cash and cash equivalents		1,356,756	1,805,996
Amounts due from credit institutions		6,601,895	5,425,131
TOTAL PER THE STATEMENT OF FINANCIAL POSITION		7,958,651	7,231,127
Less accrued interest		(50,345)	(63,211)
TOTAL FOR THE STATEMENT OF CASH FLOWS PURPOSES	20 b	7,908,306	7,167,916


Besik Natenadze
Director


Tamar Kepilashvili
Chief Accountant

NOTES

1. GENERAL INFORMATION

Ardi Insurance JSC (the Company) is a Joint-Stock Company domiciled in and registered under the laws of Georgia at March 31, 2010. The Company operates by head office and 9 service centers and provides different life and non-life insurance services in Georgia, life insurance contains contracts issued for insuring bank loans given to the beneficiary and accordingly insurance contract is affective during the period of the loan agreement (see Note 4). The registered office of the Company is 3 Vazha-Pshavela avenue, Tbilisi.

The shareholders of the Company are:

	2019	2018
Armaz Tavadze	63.16%	60%
Zaza Nishnianidze	21.05%	20%
Zurab Khizanishvili	-	15%
Assets Management Company Ardi Capital Ltd	9.47%	-
Gazelle Finance Georgia LLC	6.32%	-
William Thomas Ipsen	-	5%
	100%	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

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

The financial statements comprise a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes. The statement of financial position format is in order of liquidity.

The financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Company uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Company (working closely with external qualified valuers) using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

NOTES (CONTINUED)

(B) APPLICATION OF NEW AND AMENDED STANDARDS

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by IASB that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. This refers to IFRS 9 *Financial Instruments* – the Company used temporary exemption of its adoption (see below).

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

- IFRS 16 *Leases* - The company has adopted IFRS 16 from 1 January 2019. The standard replaces IAS 17 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

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

Cost of right-of-use assets (IFRS 16)	1,046,009
Accumulated depreciation of right-of-use assets (IFRS 16)	(407,695)
Lease liabilities (IFRS 16)	<u>(798,087)</u>
Reduction in opening retained profits as at 1 January 2019	<u>(159,773)</u>

Below is disclosed change on retained earnings due to IFRS 16

	Carrying amount a 31 December 2018	Reclassific ation	Remeas urement	IFRS 16 carrying amount at 1 January 2019
Right of Use	-	-	638,314	638,314
Lease Liability	-	-	(798,087)	(798,087)
Total	-	-	(159,773)	(159,773)

NOTES (CONTINUED)

Below is disclosed lease liability for the 1 January 2019:

Total operating lease commitments disclosed at 31 December 2018	1,275,009
Recognition exemptions:	
Leases on low value assets	3,000
Leases with remaining lease terms of less than 12 months	150,327
Variable lease payments not recognized	-
Other minority adjustments relating to commitment disclosure	-
	153,327
Operating lease liability before disclosure	1,121,682
Disclosed using incremental borrowing rate	323,595
Operating lease liabilities	798,087
Reasonably certain extension options	-
Finance lease obligations	-
Total lease liabilities recognized under IFRS 16 at 1 January 2019	798,087

Below is disclosed terms of agreement recognised under IFRS 16 as Right of Use:

Right of use asset	No of right of use assets leased	range of remaining term	average remaining term	No of leases with extension options	no of leases with options to purchase	No of leases with variably payments linked to an index	No of leases with termination option
office space	11	2-7 year	4	11	1	-	11

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

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of 12 months as at 1 January 2019 as short-term leases;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.
- Amendments to IFRS 4 titled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* – According to the amendments, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach').

NOTES (CONTINUED)

- IFRS 17 *Insurance Contracts* - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2021 (earlier application permitted only if IFRS 9 and IFRS 15 also applied), requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

(C) JOINT ARRANGEMENTS: JOINT OPERATION

A joint arrangement is an arrangement of which two or more parties have joint control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (in contrast to joint venture, where the parties have rights to the net assets of the arrangement). Where the Company is a joint operator in a joint operation, it recognises in relation to its interest in a joint operation: (a) its assets, including its share of any assets held jointly; (b) its liabilities, including its share of any liabilities incurred jointly; (c) its revenue from the sale of its share of the output arising from the joint operation; (d) its share of the revenue from the sale of the output by the joint operation; and (e) its expenses, including its share of any expenses incurred jointly.

(D) INSURANCE REVENUE AND EXPENSES RECOGNITION

Gross premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums (see part G of this note).

Reinsurance premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

NOTES (CONTINUED)

Insurance benefits and claims

Insurance claims include all claims occurring during the year, whether reported or not, claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries (subrogation), and any adjustments to claims outstanding from previous years.

(E) FINANCIAL INSTRUMENTS

Initial recognition and measurement

The Company recognises a financial asset or a financial liability in the statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition, the Company recognises all financial assets and financial liabilities at fair value. The fair value of a financial asset / liability on initial recognition is normally represented by the transaction price.

Subsequent measurement of financial assets

Subsequent measurement of financial assets depends on their classification on initial recognition. During the reporting period, the Company classified financial assets as loans and receivables - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or collectability. Typically trade and other receivables, bank balances and cash are classified in this category.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected. Objective evidence of impairment could include significant financial difficulty of the counterparty, breach of contract, probability that the borrower will enter bankruptcy, disappearance of an active market for that financial asset because of financial difficulties, etc.

In addition, for insurance premium receivables that are assessed not to be impaired individually, the Company assesses them collectively for impairment, based on the Company's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

The carrying amount of loans and receivables is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

Irrespective of the legal form of the transactions, financial assets are derecognised when they pass the "substance over form" based derecognition test prescribed by IAS 39. That test comprises two different types of evaluations which are applied strictly in sequence:

- Evaluation of the transfer of risks and rewards of ownership
- Evaluation of the transfer of control

Whether the assets are recognised / derecognised in full or recognised to the extent of the Company's continuing involvement depends on accurate analysis which is performed on a specific transaction basis.

NOTES (CONTINUED)

Subsequent measurement of financial liabilities

Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. During the reporting period, the Company did not classify any financial liabilities as held for trading or designated as at fair value through profit or loss. All the other financial liabilities are carried at amortised cost using the effective interest method.

Typically, trade and other payables and borrowings are classified in this category. Items classified within trade and other payables are not usually remeasured, as the obligation is known with a high degree of certainty and settlement is short-term.

Derecognition of financial liabilities

A financial liability is removed from the Company's statement of financial position only when the liability is discharged, cancelled or expired (ie extinguished). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Assets related to insurance

- Insurance premium receivable is the sum of earned (past due) and unearned premiums receivable.
- Reinsurance receivable is the reinsurer's share in claims payable or paid and commissions receivable from reinsurers.
- Reinsurance assets represent the reinsurer's share in liabilities from insurance contracts.
- Subrogation receivable is the fair value of recoveries receivable from third parties to reimburse some or all costs of insurance claims.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

(F) LIABILITIES FROM INSURANCE CONTRACTS

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported (RBNS) or not (IBNR), together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. IBNR is calculated at the reporting date in accordance with the state regulation: 5% of annual gross premiums for all types of insurance contracts other than medical (health) and 2% of annual gross premiums for medical (health) insurance. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

NOTES (CONTINUED)

The unearned premiums reserve (UPR) represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Liability adequacy test

At each reporting date, the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

(G) DEFERRED ACQUISITION COSTS (DAC)

Those direct and indirect costs incurred during the financial period arising from the acquiring or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DACs are amortised over the period in which the related revenues are earned. The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

DACs are derecognised when the related contracts are either settled or disposed of.

(H) PROPERTY AND EQUIPMENT

On initial recognition, items of property and equipment are recognised at cost, which includes the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

After initial recognition, items of property and equipment other than buildings are carried at cost less any accumulated depreciation and impairment losses. Buildings are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows:

NOTES (CONTINUED)

Buildings	4% straight line
Computers and other technical equipment	20% straight line
Furniture and office equipment	20% straight line
Vehicles	14% straight line
Other	20% straight line
Land is not depreciated	

Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(I) INTANGIBLE ASSETS

On initial recognition, intangible assets acquired separately are measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. The estimated useful life and amortisation method (15% straight line) are revised at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset - measured as the difference between the net disposal proceeds and the carrying amount of the asset - are recognised in profit or loss when the asset is derecognised.

NOTES (CONTINUED)

(J) INVESTMENT PROPERTY

Investment properties are held to earn rental income and / or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The cost comprises the purchase price and any directly attributable expenditure (eg professional fees for legal services, property transfer taxes).

Subsequently, investment properties are carried at cost less any accumulated depreciation and impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life of 20 years. Land is not depreciated. Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(K) IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of property and equipment, intangible assets, investment property and DAC are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Value in use is the present value of the estimated future cash flows of the asset / unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / unit whose impairment is being measured.

Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(L) FOREIGN CURRENCY TRANSACTIONS

Foreign currency monetary assets and liabilities are translated into the functional currency of the Company (Georgian Lari, "GEL") using the exchange rates officially published by the National Bank of Georgia at the reporting date:

	GEL / USD	GEL / EUR
Exchange rate as at 31 December 2019	2.87	3.21
Average rate for the year ended 31 December 2019	2.82	3.16
Exchange rate as at 31 December 2018	2.68	3.07
Average rate for the year ended 31 December 2018	2.53	2.99
Exchange rate as at 31 December 2017	2.59	3.10

Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in profit or loss.

NOTES (CONTINUED)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

(M) INCOME TAXES

Tax currently payable is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

Using the statement of financial position liability method, deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities in the statement of financial position and the corresponding tax base.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that the Company considers that it is probable (ie more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities, they relate to the same tax authority and the Company's intention is to settle the amounts on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

(N) PROVISIONS

Where, at the reporting date, the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that the Company will settle the obligation, a provision is made in the statement of financial position. Provisions are made using best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period they arise.

(O) EQUITY

Equity instruments are contracts that give a residual interest in the net assets of the Company. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent those proceeds exceed the par value of the shares issued they are credited to a share premium account.

Dividends are recognised as liabilities when they are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the Shareholders' Annual General Meeting. Interim dividends are recognised when paid.

NOTES (CONTINUED)

3. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under general insurance contracts is the Company's most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims. For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position insurance liability. General insurance claims provisions are not discounted for the time value of money.

Impairment of insurance, reinsurance and subrogation receivables

The Company estimates impairment of receivables derived from insurance and reinsurance contracts. Factors that the Company considers whether a financial asset is impaired is its overdue status or bad credit rating of a debtor. 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 an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

Deferred acquisition costs (DAC)

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. For long-term insurance contracts without fixed terms and insurance contracts with DAC are amortised over the expected total life of the contract as a constant percentage of estimated gross profit margins arising from these contracts in accordance with the accounting policy.

Useful lives of property and equipment and intangible assets

Property and equipment and intangible assets are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

Fair value of property

Fair value of properties is determined by independent professionally qualified appraisers. Fair value is mainly determined using the sales comparison method. The estimate is subject to change as new transaction data and market evidence becomes available.

NOTES (CONTINUED)

Income tax

The Company is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities.

4. NET INSURANCE REVENUE

	Gross premiums	2019 Premiums ceded to reinsurers	Net premiums	Gross premiums	2018 Premiums ceded to reinsurers	Net premiums
Medical (Health)	28,025,592	-	28,025,592	22,912,248	-	22,912,248
Road Transport Means	4,693,057	-	4,693,057	2,777,607	-	2,777,607
Property Suretyships	4,195,400	(1,431,197)	2,764,203	2,613,146	(679,545)	1,933,601
Motor TPL (Compulsory)	3,964,691	(2,202,086)	1,762,605	2,845,081	(1,582,062)	1,263,019
Third Party Liability Cargo	2,261,523	-	2,261,523	1,859,142	-	1,859,142
Personal Accident Motor Third Party Liability	1,865,853	(152,291)	1,713,562	1,500,662	(153,850)	1,346,812
Travel	821,818	(283,438)	538,380	1,262,037	(486,899)	775,138
Life	630,249	(877)	629,372	246,110	(4,508)	241,602
Financial Loss Risks Aviation Transport Means	602,193	-	602,193	391,161	(2,788)	388,373
Aviation TPL	333,911	-	333,911	260,925	-	260,925
Marine Transport Means	305,001	(30,335)	274,666	96,300	(44,824)	51,476
	65,006	-	65,006	48,331	-	48,331
	26,092	(26,092)	-	383,118	(373,724)	9,394
	11,690	(11,690)	-	361,026	(332,626)	28,400
	-	-	-	42,806	(32,105)	10,701
	47,802,076	(4, 138,006)	43,664,070	37,599,700	(3,692,931)	33,906,769
Changes in unearned premium reserves	(3,446,473)	144,267	(3,302,206)	(2,017,515)	(274,800)	(2,292,315)
Net insurance revenue	44,355,603	(3,993,739)	40,361,864	35,582,185	(3,967,731)	31,614,454

The product called 'life insurance' is a short-term insurance contract, based on which a fixed amount is paid to a beneficiary when the insured person dies within the contract term, insurance contracts are issued for insuring bank loans given to the beneficiary and accordingly insurance contract is affective during the period of the loan agreement.

NOTES (CONTINUED)

Gross premiums include premiums of GEL 1,313,248 (2018: GEL 2,155,409) from fronting insurance contracts (contracts where 100% of insurance risk is reinsured) and premiums ceded to reinsurers include such premiums of GEL 698,410 (2018: GEL 1,452,222).

Compulsory insurance of Motor Third Party Liability refers to compulsory insurance of motor transport registered in foreign countries and moving in Georgia. It is administered by Compulsory Insurance Center ("CIC", Non-Commercial Legal Entity). The Center started functioning on 1 March 2018 in accordance with Georgian legislation. Compulsory insurance of MTPL is a joint operation where 17 insurance companies operating in Georgia (including the Company) are joint operators and share the insurance revenue and risks equally.

Unearned premium reserve is disclosed in Note 17.

5. INTEREST INCOME AND EXPENSE

	2019	2018
Interest income from loans issued	331,454	367,871
Interest income from deposits	364,125	209,227
Interest income	695,579	577,098
Interest expense on bank loans	(148,742)	(74,483)
Interest expense on other loans	(148,978)	(114,212)
Interest expense on lease liabilities	(100,406)	-
Interest expense	(398,126)	(188,695)
Net interest income	297,453	388,403

6. COMMISSION INCOME

	2019	2018
Gross commission income	1,280,182	541,880
Commission income deferred	(220,086)	(156,766)
Amortization of prior period income deferred	154,037	92,446
Commission income	1,214,133	477,560

Commission income includes income generated from reinsurers contracts.

Movement of deferred commission income:

	2019	2018
Deferred commission income at 1 January	265,491	201,171
Gross commission income	1,280,182	541,880
Correction of prior periods	(76,692)	-
Amortization	(1,214,133)	(477,560)
Deferred commission income at 31 December	254,848	265,491

NOTES (CONTINUED)

Correction of the period contains the amount mistakenly recalculated prior year, during 2018 commission income should be less.

7. INSURANCE BENEFITS AND CLAIMS PAID

	2019			2018		
	Paid	Ceded to reinsurers	Net payment	Paid	Ceded to reinsurers	Net payment
Medical (Health)	20,616,821	-	20,616,821	17,400,167	-	17,400,167
Road Transport Means	3,720,321	-	3,720,321	1,634,623	-	1,634,623
Suretyships	3,845,002	(2,438,680)	1,406,322	1,357,516	(703,900)	653,616
Property	3,449,795	(2,708,052)	741,743	758,704	(328,800)	429,904
Motor Third Party Liability	453,221	-	453,221	168,735	-	168,735
Motor TPL (Compulsory)	122,812	-	122,812	59,773	-	59,773
Financial loss Risks	72,471	-	72,471	61,906	-	61,906
Third Party Liability	45,710	-	45,710	23,042	-	23,042
Life	37,192	-	37,192	-	-	-
Travel	32,037	-	32,037	67,290	-	67,290
Cargo	20,841	-	20,841	3,324	-	3,324
Personal Accident	8,660	-	8,660	2,871	-	2,871
Other Expenses related to claims handling	23,824	-	23,824	6,547	-	6,547
Total:	32,448,707	(5,146,732)	27,301,975	21,544,498	(1,032,700)	20,511,798

8. SUBROGATION AND RECOVERIES

Movement of receivable from subrogation and recoveries:

	2019	2018
At 1 January	7,803,937	7,675,386
Net income from subrogation and recoveries	2,418,941	1,112,526
Compensations received	(1,672,863)	(983,975)
At 31 December	8,550,015	7,803,937

Movement of reinsurers' share in subrogation receivable:

	2019	2018
At 1 January	6,548,006	6,612,374
Reinsurers' share in net income from subrogation and recoveries	476,587	191,066
Compensations received	(377,580)	(255,434)
At 31 December	6,647,013	6,548,006

NOTES (CONTINUED)

9. COMMISSION EXPENSES (ACQUISITION COSTS)

	2019	2018
Acquisition costs	4,719,623	3,601,291
Acquisition costs deferred	(1,746,853)	(1,477,618)
Amortization of deferred acquisition cost	1,371,159	1,138,581
Commission expenses	4,343,929	3,262,254

Movement of deferred acquisition costs:

	2019	2018
Deferred acquisition costs, at 1 January	1,638,979	1,299,942
Acquisition Cost	4,719,623	3,601,291
Commission expense	(4,343,929)	(3,262,254)
Deferred acquisition costs, at 31 December	2,014,673	1,638,979

For the year ended balance of the deferred acquisition cost will be paid during the 1-year period amounted GEL 1,703,509 (2018: 1,353,284) during the period more than 1 year and less than 5 year GEL 311,164 (2018: 285,695)

10. GENERAL AND OTHER ADMINISTRATIVE EXPENSES

	2019	2018
Employee compensation	5,500,188	4,088,338
Depreciation and amortization	597,523	246,027
Insurance State Supervision fee	442,799	355,822
CIC membership fee	272,745	346,906
Office expenses	244,629	184,168
Communication expenses	173,862	159,455
Audit and consultation expenses	145,128	81,578
Rent	142,585	417,726
Representative expenses	132,837	100,794
Business trip	102,628	66,923
Utilities	91,764	91,965
Public register and notary service fees	53,922	40,879
Bank commissions	33,457	41,365
Other G&A expenses	441,062	375,840
General and administrative expenses	8,375,129	6,597,786

NOTES (CONTINUED)

11. MARKETING EXPENSES

	2019	2018
Salary of sales staff	787,149	601,732
Advertising expenses	203,841	235,473
Other sales expenses	15,365	12,970
Total marketing expenses	1,006,355	850,175

12. IMPAIRMENT AND WRITE OFF EXPENSE / (RECOVERY)

	2019	2018
Impairment of insurance premium receivable	103,506	105,734
Impairment/ (Recovery) of impairment of loans issued (other assets)	520,565	(134,422)
Impairment and write off expense / (recovery)	624,071	(28,688)

13. INCOME TAX

	2019	2018
Current income tax expense	214,481	274,592
Deferred income tax expense	(2,492)	118,776
Write-off of deferred income tax	(188,390)	-
Provision for current income taxes	61,738	-
Write-off of current income taxes	(170,039)	(225,364)
Income tax (benefit) / expense	(84,702)	168,004

Reconciliation of income tax expense:

	2019	2018
Profit before income tax expense	2,140,963	1,791,769
Income tax expense (15%)	321,144	268,765
Temporary differences	2,492	(6,997)
Provision for current income taxes	(61,738)	-
Permanent differences	(47,417)	12,824
Current income tax expense	214,481	274,592

NOTES (CONTINUED)

Deferred tax liability comprises temporary differences attributable to:

	2019	2018
Taxable temporary Difference		
Property and equipment	134,573	68,334
Subrogation receivable, net of reinsurance	-	188,390
Deductible Temporary Difference		
Acquisition costs	-	(37,974)
Liabilities from insurance contracts	-	(24,620)
Liabilities from insurance contracts	(131,325)	-
Deferred tax liability	3,248	194,130

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

14. PROPERTY AND EQUIPMENT

	Building	Right-of-use assets	Computers and other technical equipment	Furniture and office equipment	Vehicles	Leasehold imp. and other	Total
Cost							
At 1 January 2018	1,410,000	-	331,827	223,704	92,201	147,093	2,204,825
Additions	-	-	67,698	29,466	39,460	41,228	177,852
Disposals	-	-	-	-	(20,838)	(12,000)	(32,838)
At 31 December 2018	1,410,000	-	399,525	253,170	110,823	176,321	2,349,839
IFRS16 Adj. (note 2.B)	-	1,046,009	-	-	-	-	1,046,009
Additions	143,100	361,129	72,023	82,107	-	78,099	736,458
Disposals	-	-	-	-	(21,991)	-	(21,991)
At 31 December 2019	1,553,100	1,407,138	471,548	335,277	88,832	254,420	4,110,315

NOTES (CONTINUED)

	Building	Right-of-use assets	Computers and other technical equipment	Furniture and office equipment	Vehicles	Leasehold imp. and other	Total
Accumulated depreciation							
At 1 January 2018	120,000	-	210,956	139,341	51,411	79,372	601,080
Depreciation for the period	60,000	-	50,162	31,264	14,514	25,087	181,027
Disposals	-	-	-	-	(7,442)	(6,000)	(13,442)
At 31 December 2018	180,000	-	261,118	170,605	58,483	98,459	768,665
IFRS16 Adj. (note 2.B)	-	407,695	-	-	-	-	407,695
Depreciation for the period	62,862	324,224	49,793	37,525	17,333	29,627	521,364
Disposals	-	-	-	-	(10,794)	-	(10,794)
At 31 December 2019	242,862	731,919	310,911	208,130	65,022	128,086	1,686,930
Net carrying amount							
At 31 December 2018	1,230,000	-	138,407	82,565	52,340	77,862	1,581,174
At 31 December 2019	1,310,238	675,219	160,637	127,147	23,810	126,334	2,423,385

The valuation of the building (556 sq.m. office space on 3 Vazha-Pshavela ave., Tbilisi) was performed on 1 August 2014 by independent valuator Valuation Company ACD Ltd in accordance with International Valuation Standards (IVS) using market approach.

If the building was stated on a historical cost basis, the amounts would have been as follows:

	2019	2018
Cost	1,662,977	1,519,877
Accumulated depreciation	(492,423)	(428,766)
Net book value	1,170,554	1,091,111

The building is pledged as security for the loan from Procredit Bank JSC (Note 23).

Depreciation has been charged entirely to general and administrative expenses.

For the year ending cost of fully depreciated Computers and other technical equipment equals to GEL 198,703 (2018: GEL 142,379) Furniture and office equipment equals to 133,734 (2018: 78,758)

NOTES (CONTINUED)

15. INTANGIBLE ASSETS

	Licenses	Computer software	Other	Total
Cost				
At 1 January 2018	31,019	258,136	1,900	291,055
Additions	18,763	130,112	-	148,875
At 31 December 2018	49,782	388,248	1,900	439,930
Additions	15,095	120,502	-	135,597
At 31 December 2019	64,877	508,750	1,900	575,527
Accumulated depreciation				
At 1 January 2018	7,790	90,245	713	98,748
Depreciation for the period	6,060	48,479	285	54,824
At 31 December 2018	13,850	138,724	998	153,572
Depreciation for the period	8,599	67,275	285	76,159
At 31 December 2019	22,449	205,999	1,283	229,731
Net carrying amount				
At 31 December 2018	35,932	249,524	902	286,358
At 31 December 2019	42,428	302,751	617	345,796

Amortisation has been charged entirely to general and administrative expenses.

16. INVESTMENT PROPERTY

	2019	2018
Land plots		
Apartments under construction	602,300	602,300
Apartment	160,500	160,500
Accumulated depreciation of apartment	-	203,500
At 31 December	762,800	935,775

Land plots are located in Tbilisi (4,010 sq.m.) and Tetrtskaro (50,382 sq.m.). Apartments under construction contains apartments located in Tbilisi and Batumi.

During 2019 company sold Apartment located in Tbilisi amounted Gel 203,500

To determine fair value of investment property valuation has been performed by the independent expert for the land plot and building at 31 December 2017, management believes that for 31 December 2019 fair value of the investment property was not changed and is equal to 602,300.

Depreciation has been charged entirely to general and administrative expenses.

NOTES (CONTINUED)

d) Analyses of movement in claims provisions, gross of reinsurance:

	2019	2018
Balance of incurred but not reported at 1 January	1,356,753	978,614
Balance of reported but not settled claims at 1 January	10,099,176	9,302,891
Total provisions for claims at 1 January	11,455,929	10,281,505
Payments in respect of prior year claims	(3,031,670)	(2,573,030)
Change in estimates in respect of prior year claims	(1,043,896)	(1,109,131)
Expected cost of current year claims	33,136,038	23,821,506
Payments in respect of current year claims	(29,393,213)	(18,964,921)
Total provisions for claims at 31 December	11,123,188	11,455,929
Balance of incurred but not reported at 31 December	1,549,336	1,356,753
Balance of reported but not settled claims at 31 December	9,573,852	10,099,176

e) Analyses of movement in claims provisions, reinsurer's share:

	2019	2018
Balance of incurred but not reported at 1 January	183,524	188,133
Balance of reported but not settled claims at 1 January	6,299,213	5,718,067
Total provisions for claims at 1 January	6,482,737	5,906,200
Payments in respect of prior year claims	(752,798)	(446,950)
Change in estimates in respect of prior year claims	(71,295)	(125,370)
Expected cost of current year claims	4,586,048	1,734,607
Payments in respect of current year claims	(4,393,934)	(585,750)
Total provisions for claims at 31 December	5,850,758	6,482,737
Balance of incurred but not reported at 31 December	210,117	183,524
Balance of reported but not settled claims at 31 December	5,640,641	6,299,213

f) Analyses of movement in claims provisions, net of reinsurance:

	2019	2018
Balance of incurred but not reported at 1 January	1,173,229	790,481
Balance of reported but not settled claims at 1 January	3,799,963	3,584,824
Total provisions for claims at 1 January	4,973,192	4,375,305
Payments in respect of prior year claims	(2,278,872)	(2,126,080)
Change in estimates in respect of prior year claims	(972,601)	(983,761)
Expected cost of current year claims	28,549,990	22,086,899
Payments in respect of current year claims	(24,999,279)	(18,379,171)
Total provisions for claims at 31 December	5,272,430	4,973,192
Balance of incurred but not reported at 31 December	1,339,219	1,173,229
Balance of reported but not settled claims at 31 December	3,933,211	3,799,963

NOTES (CONTINUED)

h) Provisions for claims reported by policyholders (RBNS), Reinsurers' share in RBNS and Net effect for the year ended 31 December 2019 is disclosed below:

	Provisions for claims reported by policyholders	Reinsurers' share in RBNS	NET
Medical (Health)	2,262,509	-	2,262,509
Suretyships	6,170,599	5,111,800	1,058,799
Road Transport Means	211,839	-	211,839
Property	748,492	528,842	219,650
Motor TPL (Compulsory)	43,648	-	43,648
Third Party Liability	11,397	-	11,397
Cargo	-	-	-
Motor Third Party Liability	12,130	-	12,130
Aviation Transport Means	-	-	-
Aviation TPL	-	-	-
Travel	53,366	-	53,366
Personal Accident	17,063	-	17,063
Life	60	-	60
Financial Loss Risks	42,749	-	42,749
Marine Transport Means	-	-	-
Floating transport insurance	-	-	-
Total	9,573,852	5,640,641	3,933,211

Provisions for claims reported by policyholders (RBNS), Reinsurers' share in RBNS and Net effect for the year ended 31 December 2018 is disclosed below:

	Provisions for claims reported by policyholders	Reinsurers' share in RBNS	Net
Medical (Health)	2,077,547	-	2,077,547
Suretyships	7,564,683	6,285,597	1,279,086
Road Transport Means	133,774	-	133,774
Property	117,596	13,616	103,980
Motor TPL (Compulsory)	55,999	-	55,999
Third Party Liability	11,349	-	11,349
Cargo	-	-	-
Motor Third Party Liability	43,253	-	43,253
Aviation Transport Means	-	-	-
Aviation TPL	-	-	-
Travel	39,868	-	39,868
Personal Accident	13,476	-	13,476
Life	-	-	-
Financial Loss Risks	41,631	-	41,631
Marine Transport Means	-	-	-
Floating transport insurance	-	-	-
Total	10,099,176	6,299,213	3,799,963

NOTES (CONTINUED)

- i) Provision for claims incurred but not reported (IBNR) during the period and IBNR net of reinsurance is presented below

	Provisions for claims incurred but not reported (IBNR) 2019	Provisions for claims incurred but not reported (IBNR) net of reinsurance 2019	Provisions for claims incurred but not reported (IBNR) 2018	Provisions for claims incurred but not reported (IBNR) net of reinsurance 2018
Medical (Health)	560,512	560,512	458,245	458,245
Road Transport Means	234,653	234,653	138,880	138,880
Property	209,770	134,993	130,657	99,620
Suretyships	198,235	88,130	142,254	61,334
Motor Third Party Liability (Compulsory)	113,076	113,076	92,957	92,957
Third Party Liability	93,293	85,678	75,033	67,341
Cargo	41,091	26,919	227,237	202,892
Personal Accident	31,512	31,469	12,306	12,080
Motor Third Party Liability	30,110	30,110	19,558	19,419
Travel	16,696	16,696	13,046	13,046
Life	15,250	13,733	4,815	2,574
Financial Loss Risks	3,250	3,250	2,417	2,417
Aviation Transport Means (Hull)	1,303	-	19,156	470
Aviation Third Party Liability	585	-	18,051	1,420
Marine Transport Means (Hull)	-	-	2,141	534
Total	1,549,336	1,339,219	1,356,753	1,173,229

- j) aging of Provisions for claims reported by policyholders (RBNS) for the year ended 31 December 2019 is presented below:

	Less than 1 year	1-5 year	more than 5 year	Total
Providers	1,774,306	456,428	8,900	2,239,634
Individual	22,875	-	-	22,875
Non-health	1,826,601	4,689,723	795,019	7,311,343
Total:	3,623,782	5,146,151	803,919	9,573,852

NOTES (CONTINUED)

aging of Provisions for claims reported by policyholders (RBNS) for the year ended 31 December 2018 is presented below:

	Less than 1 year	1-5 year	more than 5 year	Total
Providers	1,812,881	234,949	13,955	2,061,785
Individual	15,762	-	-	15,762
Non-health	2,643,893	5,376,888	848	8,021,629
Total:	4,472,536	5,611,837	14,803	10,099,176

According to the agreements claims should be reported during 3 months after accident occurred.

18. OTHER ASSETS

	2019	2018
Loans issued	2,989,493	2,780,444
Allowance for impairment losses	(597,961)	(77,396)
Net loans issued	2,391,532	2,703,048
Advances paid	17,219	73,213
Inventory	47,396	49,326
Prepayments to employees	7,536	41,356
Other receivables	26,600	26,386
OTHER ASSETS	2,490,283	2,893,329

There is no material difference between the fair value of financial assets included in other assets and their carrying amount.

Ageing of net loans issued see in note 25

All the loans issued are collateralized.

NOTES (CONTINUED)

Loan issued for the 31 December 2019 is disclosed bellow grouped by the start date and maturity date:

	Starting Date	Maturity Date	Fix Interest Rate	CCY	Amount
Individual	2019	2019	10%	Gel	31,942
Individual	2017	2018	20%	GEL	58,065
Individual	2015	2018	12%-20%	GEL	76,577
Individual	2013	2018	11%-16%	GEL	633,538
Legal	2016	2018	12%-15%	GEL	325,593
Legal	2016	2017	12%	GEL	120,793
Legal	2016	2017	9.80%	USD	255,128
Legal	2015	2020	12%	GEL	624,176
Legal	2015	2018	12%-20%	GEL	561,493
Legal	2014	2015	12%	GEL	302,188
Total loan issued					2,989,493
Loan principal					2,036,040
Interest receivable					953,453
Total loan issued					2,989,493

Loan issued for the 31 December 2018 is disclosed bellow grouped by the start date and maturity date:

	Starting Date	Maturity Date	Fix Interest Rate	CCY	Amount
Individual	2015	2018	12%-20%	GEL	78,795
Individual	2017	2018	14%- 20%	Gel	57,554
Individual	2013	2018	11%-16%	GEL	594,257

ARDI INSURANCE JSC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES (CONTINUED)

	Starting Date	Maturity Date	Fix Interest Rate	CCY	Amount
Legal	2016	2018	12%-15%	GEL	299,130
Legal	2016	2017	12%	GEL	110,833
Legal	2016	2017	9.80%	USD	243,096
Legal	2015	2020	12%	GEL	558,059
Legal	2015	2018	12%-20%	GEL	540,450
Legal	2014	2018	15%	GEL	36,991
Legal	2014	2015	12%	GEL	261,279
Total loan issued					2,780,444
Loan principal					2,036,040
Interest receivable					661,225
Total loan issued					2,780,444

The table below analyses changes in the principle of loans issued in the period:

	2019	2018
At 1 January	2,780,444	3,214,506
principal for the year	209,049	(434,062)
At 31 December	2,989,493	2,780,444

The table below analyses changes in the allowance for impairment of loans issued in the period:

	2019	2018
At 1 January	77,396	211,818
Charge for the year	520,565	(134,422)
At 31 December	597,961	77,396

Provisions, write-offs and utilisation of the allowance for impairment losses are presented in the statement of profit or loss within impairment and write off expense (Note 12).

NOTES (CONTINUED)

19. INSURANCE AND REINSURANCE RECEIVABLES

	2019	2018
Insurance premium receivable	22,416,916	19,474,223
Allowance for impairment losses	(2,811,353)	(2,707,847)
Net insurance premium receivable	19,605,563	16,766,376
Reinsurance receivable	8,795,133	4,561,883
Subrogation receivable net of impairment losses (Note 8)	8,550,015	7,803,937
Insurance receivables	36,950,711	29,132,196

The carrying amounts disclosed above reasonably approximate their fair values at year end.

Company is creating allowance for impairment loss on Insurance premium receivables due from policyholders.

Analysis of credit risk is provided in Note 25.

Insurance premium receivable for the year ended at December 31, 2019 by time period is disclose bellow:

	1 Year	1-5 Year	More than 5 year	Total
Due from policyholders	18,223,740	626,319	28,192	18,878,251
Due from reinsurers	3,531,973	6,692	-	3,538,665
Total	21,755,713	633,011	28,192	22,416,916

Insurance premium receivable for the year ended at December 31, 2018 by time period is disclose bellow:

	1 Year	1-5 Year	More than 5 year	Total
Due from policyholders	15,621,974	372,808	31,716	16,026,498
Due from reinsurers	3,209,508	238,217	-	3,447,725
Total	18,831,482	611,025	31,716	19,474,223

Reinsurance receivable and Subrogation receivable net of impairment losses for the year ended at December 31, 2019 by time period is disclose bellow:

	1 Year	1-5 Year	More than 5 year	Total
Reinsurance receivable	8,795,133	-	-	8,795,133
Subrogation receivable net of impairment losses	2,439,627	5,812,222	298,166	8,550,015
Total	11,234,760	5,812,222	298,166	17,345,148

NOTES (CONTINUED)

Reinsurance receivable and Subrogation receivable net of impairment losses for the year ended at December 31, 2018 by time period is disclose bellow:

	1 Year	1-5 Year	More than 5 year	Total
Reinsurance receivable	4,561,883	-	-	4,561,883
Subrogation receivable net of impairment losses	2,306,681	5,172,768	324,488	7,803,937
Total	6,868,564	5,172,768	324,488	12,365,820

The table below analyses changes in the allowance for impairment losses in the period:

	2019	2018
At 1 January	2,707,847	2,602,113
Charge for the year	103,506	105,734
At 31 December	2,811,353	2,707,847

Provisions, write-offs and utilisation of the allowance for impairment losses are presented in the statement of profit or loss within impairment and write off expense (Note 12).

20. CASH AND CASH EQUIVALENTS, AMOUNTS DUE FROM CREDIT INSTITUTIONS

a) Cash and cash equivalents and amounts due from credit institutions is presented below:

	2019	2018
Cash on current accounts with banks	1,244,539	1,702,245
Cash on hand	112,217	103,751
Cash and cash equivalents	1,356,756	1,805,996
Short-term deposits	6,551,550	5,361,920
Accrued interest	50,345	63,211
Amounts due from credit institutions	6,601,895	5,425,131

Short-term deposits include restricted cash placed on bank accounts to conform to the requirement of regulatory legislation (Note 25, paragraph of Capital Management).

NOTES (CONTINUED)

At 31 December 2019 Interest rates on deposits in national currency is in range 6- 12.6% (2018: 8 - 12.6%), in USD : 2.5 -4.8% 2018: (2.5 - 10.3)

b) Into the Statement of financial position Cash and Cash equivalent owned by the company is split between two categories: Cash and Cash equivalent and Amount due from Credit institutions, category Amount due from Credit institutions contains Deposits placed on bank account and accrued interest accordingly Cash and cash equivalent owned by the company and presented into Cash flow statement for the year end is presented below:

	2019	2018
Cash on current accounts with banks	1,244,539	1,702,245
Cash on hand	112,217	103,751
Short-term deposits	6,551,550	5,361,920
Amounts due from credit institutions	7,908,306	7,197,916

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

21. SHARE CAPITAL

From the Company's authorized share capital of GEL 5,000,000 (475,000 ordinary and 25,000 preference shares with a nominal value of GEL 10 each), GEL 3,485,210 (2018: GEL 2,600,000) is fully paid. Shareholders are presented in Note 1. 25,000 ordinary shares were converted into preference shares based on shareholders' decision made on 25 April 2018. Fixed dividends in amount of USD 2.88 per share has been paid on preference shares starting from 2019.

For the requirements of regulatory legislation regarding capital refer to Note 25, paragraph of Capital Management.

22. OTHER INSURANCE LIABILITIES

	2019	2018
Reinsurance premium payable	4,845,027	2,945,782
Reinsurers' share in subrogation receivable (Note 8)	6,647,013	6,548,006
Insurance agents' commission payable (DAC)	2,014,837	1,914,301
Advances received (deposits to secure suretyships)	-	15,839
Other insurance liabilities	13,506,877	11,423,928

For the year ended balance of the Insurance agents' commission payable (DAC) will be paid during the 1-year period amounted GEL 1,703,509 (2018: 1,353,284) during the period more than 1 year and less than 5 year GEL 311,164 (2018: 285,695).

Reinsurer's share in subrogation receivable is measured based on the percentage of reinsurance discribed in policy agreement.

NOTES (CONTINUED)

23. BORROWINGS

	2019	2018
Procredit Bank JSC	2,485,925	833,623
Gazelle Finance Georgia LLC	-	1,607,363
Ardi Capital Ltd	-	7,808
Borrowings	2,485,925	2,448,794
Lease liabilities	875,499	-
Borrowings and lease liabilities	3,361,424	2,448,794

During 1.

	Less than 1 year	1 year to 5 year
Lease Liability without interest payable	291,127	395,614
Interest payable	60,941	127,817
Total Lease liability	352,068	523,431

The borrowings are secured by the Company's property and its shares.

Current Borrowings for the year ended 31 December,2019 is disclosed bellow:

	Starting Date	Maturity date	Fix Interest Rate	payment of principle	payment of interest	CCY	Principal GEL
JSC Procredit Bank	5/17/2016	5/18/2020	8.5%	monthly	monthly	USD	34,556
JSC Procredit Bank	5/30/2019	6/1/2020	5.5%	monthly	monthly	EUR	226,912
JSC Procredit Bank	5/30/2019	6/1/2020	5.5%	monthly	monthly	EUR	1,535,745
JSC Procredit Bank	12/17/2019	12/17/2020	10.5%	monthly	monthly	GEL	688,712
Total borrowings							2,485,925
Loan principal							2,483,410
Interest payable							2,515
Total borrowings							2,485,925

ARDI INSURANCE JSC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES (CONTINUED)

Borrowings for the year ended 31 December,2018 is disclosed bellow:

	Starting Date	Maturity Date	Interest Rate	payment of principle	payment of interest	CCY	GEL
Ardi Capital Ltd	9/28/2017	9/28/2019	20%	monthly	monthly	GEL	7,808
JSC Procredit Bank	7/14/2016	1/14/2019	12.75%	monthly	monthly	GEL	28,188
JSC Procredit Bank	5/17/2016	5/17/2020	8.5%	monthly	monthly	USD	105,435
JSC Procredit Bank	12/17/2018	12/17/2019	10.5%	monthly	monthly	GEL	700,000
Gazelle Finance Georgia LLC	5/2/2018	5/2/2022	6.2%	monthly	monthly	USD	1,607,363
Total borrowings							2,448,794
Loan principal							2,446,279
Interest payable							2,515
Total borrowings							2,448,794

There is no material difference between the carrying amount and the fair value of the Company's borrowings.

Additional information on borrowings is disclosed in Note 25.2, paragraphs of Liquidity and Currency Risks.

24. TRADE AND OTHER PAYABLES

	2019	2018
Accounts payable	619,155	346,341
Accruals for employee compensation	601,148	379,342
Taxes payable	172,149	360,941
Other payables	116,509	99,421
Trade and other payables	1,508,961	1,186,045

The carrying amount of liabilities is in line with their fair value at the reporting date.

NOTES (CONTINUED)

25. RISK MANAGEMENT

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

Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with terms of reference for the executive management board. Management board delegates to respective members of senior management responsibilities for overseeing compliance with established risk management policies.

The management board approves the Company risk management policies and meets regularly to approve on any commercial, regulatory and own organizational requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital management objectives, policies and approach

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

The capital management objectives are:

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

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

The Company's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the regulatory directives.

NOTES (CONTINUED)

Approach to capital management

The Company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated manner, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company.

The Company has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

Capital Management

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

According to the ISSSG directive №27, issued on 25 December 2017, the minimum capital throughout the period should be not less than GEL 2,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances. The minimum capital requirement is GEL 4,200 thousand for the period from 31 December 2018 to 31 December 2020 and GEL 7,200 thousand thereafter.

The Company was in compliance with the capital requirements of ISSSG as at 31 December 2019.

25.1. Insurance risk

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board 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 principally issues the following types of general insurance contracts: Property, Marine Transport Means (Hull), Cargo, Third Party Liability, Marine Third Party Liability, Surety ships, Travel, Road Transport Means, Personal Accident, Motor Third Party Liability, Financial Risks, Medical (Health). Risks under these policies usually cover twelve-month duration.

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

Insurance risk management

NOTES (CONTINUED)

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

Even though the Company currently does not use direct analysis in creating insurance claims provision and creates insurance provision according to Georgian legislation, which precisely defines what type of reserve should be made and in what quantity, claims provision is adequate to generated claims.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the insured sector and the risk management procedures they adopted. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims reserve, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR and a reserve for reported claims not yet settled.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available.

At the end of each reporting period the Company assess whether its recognized insurance liabilities are adequate: the Company determines whether the amount of recognized insurance liabilities is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. If it is less, the insurer will recognize the entire difference in profit or loss and increase the carrying amount of the relevant insurance liabilities.

25.2. Financial risks

In performing its operating, investing and financing activities, the Company is exposed to the following financial risks:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Company.
- Liquidity risk: the risk that the Company may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. Basically, the Company is exposed only to currency risk from market risk components.

NOTES (CONTINUED)

In order to effectively manage those risks, the major guidelines used by the Company are the following:

- Minimise interest rate, currency and price risks for all kinds of transactions
- Maximise the use of "natural hedge" favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency. The same strategy is pursued with regard to interest rate risk
- All financial risk management activities are carried out on a prudent and consistent basis and following the best market practices.

The following table summarizes the carrying amount of financial assets and financial liabilities recorded by category.

FINANCIAL ASSETS	2019	2018
Cash and cash equivalents	1,356,756	1,805,996
Amounts due from credit institutions	6,601,895	5,425,131
Net insurance premium receivable (Note 19)	19,605,563	16,766,376
Reinsurance receivable	8,795,133	4,561,883
Net subrogation receivable (Notes 19 and 22)	1,903,002	1,255,931
Net loans issued (Note 18)	2,391,532	2,703,048
BALANCE AT 31 DECEMBER	40,653,881	32,518,365

FINANCIAL LIABILITIES	2019	2018
Net insurance claims (net RBNS and IBNR, Note 17)	5,272,430	4,973,192
Other insurance liabilities (Note 22)	6,859,864	4,875,922
Borrowings and lease liabilities	3,361,424	2,448,794
Trade and other payables	1,508,961	1,186,045
Current income tax	248,395	475,833
BALANCE AT 31 DECEMBER	17,251,074	13,959,786

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, companied into Levels 1 to 3 based on the degree to which the fair value is observable:

ARDI INSURANCE JSC
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES (CONTINUED)

2019

	FAIR VALUE MEASUREMENT AT END OF THE REPORTING PERIOD USING:			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	1,356,756	-	-	1,356,756
Amounts due from credit institutions	-	6,601,895	-	6,601,895
Net insurance premium receivable (Note 19)	-	-	19,605,563	19,605,563
Reinsurance receivable	-	-	8,795,133	8,795,133
Net subrogation receivable (Notes 19 and 22)	-	-	1,903,002	1,903,002
Net loans issued (Note 18)	-	-	2,391,532	2,391,532
Total financial assets	1,356,756	6,601,895	32,695,230	40,653,881
Financial liabilities				
Net insurance claims (net RBNS and IBNR, Note 17)	-	-	5,272,430	5,272,430
Other insurance liabilities (Note 22)	-	-	6,859,864	6,859,864
Borrowings and lease liabilities	-	-	3,361,424	3,361,424
Trade and other payables	-	-	1,508,961	1,508,961
Current income tax	-	-	248,395	248,395
Total financial liabilities	-	-	17,251,074	17,251,074

2018

	FAIR VALUE MEASUREMENT AT END OF THE REPORTING PERIOD USING:			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	1,805,996	-	-	1,805,996
Amounts due from credit institutions	-	5,425,131	-	5,425,131
Net insurance premium receivable (Note 19)	-	-	16,766,376	16,766,376
Reinsurance receivable	-	-	4,561,883	4,561,883
Net subrogation receivable (Notes 19 and 22)	-	-	1,255,931	1,255,931
Net loans issued (Note 18)	-	-	2,703,048	2,703,048
Total financial assets	1,805,996	5,425,131	25,287,238	32,518,365
Financial liabilities				
Net insurance claims (net RBNS and IBNR, Note 17)	-	-	4,973,192	4,973,192
Other insurance liabilities (Note 22)	-	-	4,875,922	4,875,922
Borrowings and lease liabilities	-	-	2,448,794	2,448,794
Trade and other payables	-	-	1,186,045	1,186,045
Current income tax	-	-	475,833	475,833
Total financial liabilities	-	-	13,959,786	13,959,786

ARDI INSURANCE JSC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES (CONTINUED)

Credit risk

The Company controls its exposure to credit risk by dealing only with creditworthy counterparties. There are no significant concentrations of credit risk.

The maximum credit risk to which the Company is exposed is summarized in the following table.

	2019	2018
Due from banks (Note 20)	7,908,306	7,197,916
Net past due insurance premium receivable (Note 19)	19,605,563	16,766,376
Reinsurance receivable	8,795,133	4,561,883
Net subrogation receivable (Notes 19 and 22)	1,903,002	1,255,931
Net loans issued (Note 18)	2,391,532	2,703,048
BALANCE AT 31 DECEMBER	40,603,536	32,485,154

Aging analysis of past due insurance premium receivable:

Less than 31	17,132,152	12,860,115
Between 31-90	1,084,172	1,334,902
Between 91-180	768,263	409,121
Between 181-365	914,110	1,341,278
More than 365	2,518,219	3,528,807
Allowance for impairment losses	(2,811,353)	(2,707,847)
BALANCE AT 31 DECEMBER	19,605,563	16,766,376

The following table provides an analysis of the remaining contractual maturities of the Company's financial assets and liabilities as at 31 December 2019:

FINANCIAL ASSETS	Less than 1 year	1-5 year	more than 5 year	Total
Cash and cash equivalents	1,356,756	-	-	1,356,756
Amounts due from credit institutions	5,741,585	860,310	-	6,601,895
Net insurance premium receivable (Note 19)	18,952,012	625,359	28,192	19,605,563
Reinsurance receivable	8,795,133	-	-	8,795,133
Net subrogation receivable (Notes 19 and 22)	1,058,954	822,308	21,740	1,903,002
Net loans issued (Note 18)	499,328	1,892,204	-	2,391,532
BALANCE AT 31 DECEMBER	36,403,768	4,200,181	49,932	40,653,881

NOTES (CONTINUED)

FINANCIAL LIABILITIES	Less than 1 year	1-5 year	more than 5 year	Total
Net insurance claims (net RBNS and IBNR, Note 17)	3,962,434	1,239,312	70,684	5,272,430
Other insurance liabilities (Note 22)	6,548,700	311,164	-	6,859,864
Borrowings and lease liability	3,361,424	-	-	3,361,424
Trade and other payables	1,508,961	-	-	1,508,961
Current income tax	248,395	-	-	248,395
BALANCE AT 31 DECEMBER	15,629,914	1,550,476	70,684	17,251,074
LIQUIDITY POSITION	20,773,854	2,649,706	(20,752)	23,402,807

The following table provides an analysis of the remaining contractual maturities of the Company's financial assets and liabilities as at 31 December 2018:

FINANCIAL ASSETS	Less than 1 year	1-5 year	more than 5 year	Total
Cash and cash equivalents	1,805,996	-	-	1,805,996
Amounts due from credit institutions	1,380,871	4,044,260	-	5,425,131
Net insurance premium receivable (Note 19)	16,336,463	398,197	31,716	16,766,376
Reinsurance receivable	4,561,883	-	-	4,561,883
Net subrogation receivable (Notes 19 and 22)	672,084	260,115	323,732	1,255,931
Net loans issued (Note 18)	2,703,048	-	-	2,703,048
BALANCE AT 31 DECEMBER	27,460,345	4,702,572	355,448	32,518,365

FINANCIAL LIABILITIES	Less than 1 year	1-5 year	more than 5 year	Total
Net insurance claims (net RBNS and IBNR, Note 17)	3,906,549	1,051,840	14,803	4,973,192
Other insurance liabilities (Note 22)	4,499,066	376,856	-	4,875,922
Borrowings and lease liability	1,306,341	1,142,453	-	2,448,794
Trade and other payables	1,186,045	-	-	1,186,045
Current income tax	475,833	-	-	475,833
BALANCE AT 31 DECEMBER	11,373,834	2,571,149	14,803	13,959,786
LIQUIDITY POSITION	16,086,512	2,131,424	340,644	18,558,579

Liquidity risk - Financial liabilities' maturity analysis

The Company manages liquidity risk on the basis of expected maturity dates.

The following tables analyse financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

NOTES (CONTINUED)

	Less than 1 year	1 year to 5 year	Over 5 years	Total
Net insurance claims (net RBNS and IBNR, Note 17)	5,272,430	-	-	5,272,430
Other insurance liabilities (Note 22)	6,859,864	-	-	6,859,864
Borrowings and lease liabilities	3,009,356	352,068	-	3,361,424
Trade and other payables	1,508,961	-	-	1,508,961
Current income tax	248,395	-	-	248,395
BALANCE AT 31 DECEMBER 2019	16,899,006	352,068	-	17,251,074
Net insurance claims (net RBNS and IBNR, Note 17)	4,973,192	-	-	4,973,192
Other insurance liabilities (Note 22)	4,875,922	-	-	4,875,922
Borrowings and lease liabilities	829,380	1,619,414	-	2,448,794
Trade and other payables	1,186,045	-	-	1,186,045
Current income tax	475,833	-	-	475,833
BALANCE AT 31 DECEMBER 2018	12,340,372	1,619,414	-	13,959,786

At present, the Company expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments, the Company expects the operating activity to generate sufficient cash inflows.

Guarantee contracts are appropriately secured.

Foreign currency risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The Company does not have any formal procedures on managing currency risk, however, management consider themselves to be well informed on the tendencies in the economy and has undertaken steps to minimise its currency risks.

Financial assets by currency

Financial assets as at 31 December are analysed by currency as follows:

	GEL	USD	EUR	Total
Cash and cash equivalents	910,103	446,653	-	1,356,756
Amounts due from credit institutions	2,295,088	4,306,807	-	6,601,895
Past due insurance premium receivable	3,458,986	3,645,421	86,145	7,190,552
BALANCE AT 31 DECEMBER 2019	6,664,177	8,398,881	86,145	15,149,203
Cash and cash equivalents	1,768,063	37,612	321	1,805,996
Amounts due from credit institutions	2,230,148	3,194,983	-	5,425,131
Past due insurance premium receivable	3,969,250	4,028,489	77,781	8,075,520
BALANCE AT 31 DECEMBER 2018	7,967,461	7,261,084	78,102	15,306,647

NOTES (CONTINUED)

Financial liabilities by currency

The following table analyses the breakdown of liabilities by currency.

	GEL	USD	EUR	Total
Borrowings	688,710	34,558	1,762,657	2,485,925
Lease liabilities	140,568	734,931	-	875,499
BALANCE AT 31 DECEMBER 2019	829,278	769,489	1,762,657	3,361,424
Borrowings	732,962	1,715,832	-	2,448,794
BALANCE AT 31 DECEMBER 2018	732,962	1,715,832	-	2,448,794

Sensitivity analysis

A 10% increase / decrease in the exchange rate of GEL/USD would increase / cut profits after tax by GEL 648,181 (2018: GEL 471,346).

A 10% increase / decrease in the exchange rate of GEL/EUR would cut / increase profits by GEL 142,395 (2018: GEL -6,639).

Capital Management

The main objective of capital management is to monitor and maintain, at all times, an appropriate level of capital which is commensurate with the Company's risk profile. The capital management of the Company has the following objectives:

- Compliance with the requirements of Insurance State Supervision Services of Georgia;
- Maintaining the composition and structure of the assets accepted to cover insurance liabilities, when due and to exceed regulatory requirements; and
- Maintaining the required level of stability of the Company thereby providing a degree of security to policyholders.

Regulatory Requirements

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.

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.

NOTES (CONTINUED)

The Regulatory Capital is determined based on the IFRS equity, adjusted 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.

Regulatory capital is disclosed below:

Total capital	11,053,644
Deductions:	
Goodwill and net other intangible assets	345,796
DAC	2,014,673
Cash on hand over 100,000	12,217
Investment property	228,840
Receivables	23,600
Advances	81,836
Receivbles from employees	7,536
Inventories	47,396
Other	3,000
Total Deductions	2,764,894
Regulatory capital	8,288,750
Minimum capital required	4,200,000
Solvency rate	8,041,800
Supervisory Capital (Surplus / Loss) With minimum authorized capital	4,088,750
Supervisory Capital (Surplus / Loss) With solvency rate	246,950

Company is calculating surplus/loss on minimum capital requirement according to requirements of legislation described above, Company has supervisory capital surplus for the year ending 31 December 2019, accordingly requirements of regulatory body is not violated.

NOTES (CONTINUED)

26 COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Company as lessee

During the previous years company signed operational lease agreements for one year period in which the Company is presented as a lessee. According to the agreements period of the contract will continue indefinitely. According to the agreements, the company received some equipment, space for archive, where it currently operates. The annual payment equals to GEL 144,301.

Operating lease purpose:	Starting Date	Maturity Date	CCY	Monthly payment in GEL
Basement I	1-Jul-19	1-Jul-21	GEL	250
Basement II	14-Sep-16	31-Dec-24	GEL	5,500
Commercial area	1-Apr-19	1-Apr-24	USD	5,850
Garage	1-Jun-14	1-Jun-20	GEL	125
Car	20-Feb-18	31-Dec-20	GEL	300

Operating lease ageing:	GEL
Less than 1 year	144,301
1 year to 5 year	721,505
More than 5 year	-

27. RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

NOTES (CONTINUED)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

AMOUNT OF TRANSACTIONS	2019	2018
Transactions to shareholders and top managements:		
Interest income	-	-
Interest expense	99,212	139,213
OUTSTANDING BALANCES		
Balances:		
IPR	136,405	135,672
Loans	413,988	490,226

Only material transactions with related parties were loans issued (Other assets, Note18) and corresponding interest income (Note 5).

Compensation of key management personnel was as follows:

	2019	2018
Key management salary	1,404,776	1,527,662

28. EVENTS AFTER REPORTING DATE

These financial statements were authorised for issue by the management on 30 April 2020.

We draw attention, to the present slowdown in the economic activity as a results of the Coronavirus pandemic and its consequent financial impacts on the future prospects of the entity.

The Coronavirus pandemic has taken a significant toll on human life around the world disrupting logistic chains and reducing external and domestic demand, while increasing risk aversion and uncertainty about the future. In light of these recent domestic and global developments driven by the outbreak, we have duly considered and reviewed the future risks to our organization. At present, the impacts of this ongoing crises on the local industry and the country's economy in general, remain indefinitely uncertain. Consequently, the financial and operational effects on the entity's future prospects cannot be presently determined.

ARDI INSURANCE JSC
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTES (CONTINUED)