

# ARDI INSURANCE JSC

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020

TRANSLATED VERSION OF GEORGIAN ORIGINAL

## CONTENTS

|   |       |
|---|-------|
| Independent auditor's report.....       | 3-5   |
| 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 ..... | 10-45 |

These financial statements are presented in GEL.

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

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**INDEPENDENT AUDITOR'S REPORT****TO THE MANAGEMENT AND SHAREHOLDERS OF ARDI INSURANCE JSC*****Qualified Opinion***

We have audited the financial statements of JSC Ardi Insurance (the Company), which comprise the statement of financial position as at December 31, 2020 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 December 31, 2020, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

***Basis for Qualified Opinion***

As refer in note 19 and note 22 to these financial statements, the balance of reinsurance receivables and reinsurance payable is 7,992,269 GEL and 3,943,938 GEL respectively. We were unable to verify these balances along with their movement on account of addition and deletion made during the year ended 31 December 2020, resultantly the completeness and accuracy of claims ceded to reinsurers and premium ceded to reinsurers (note 4 & 7) are also stand qualified along with their payments made. Further We were unable to obtain sufficient and appropriate audit evidence based on alternative procedures performed, therefore due to the material impact on the current year figures, our opinion is modified at December 31, 2020 financial statements.

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 qualified opinion.

### ***Other Information***

Management is responsible for the other information. The other information comprises the management report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the management report, which is expected to be made available to us after that date.

Management is responsible for other information. The other information comprises the information included in the management report, but does not include the financial statements and our auditor's report thereon. The management report is expected to be made available to use after the date of this auditor's report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

As auditors of the Company we must perform procedures needed to form an opinion on the compliance of the Company's management report with certain provisions of the Georgia's Law on Accounting, Reporting and Auditing (the Law).

### ***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 consolidated 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.

We communicate with owners of the company 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.

19 April, 2021

RSM Georgia

Engagement Partner: Paata Chubinidze

RSM Georgia  
S. Gogoberidze

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF COMPREHENSIVE INCOME

|  | Notes    | 2020                | 2019                |
|--|----------|---------------------|---------------------|
| Gross premiums   |          | 52,594,199          | 47,802,076          |
| Premiums ceded to reinsurers                               |          | (3,907,613)         | (4,138,006)         |
| <b>Net premiums</b>  |          | <b>48,686,586</b>   | <b>43,664,070</b>   |
| Changes in unearned premium reserve                        |          | (3,188,886)         | (3,446,473)         |
| Changes in unearned premium reserve ceded to reinsurers    |          | 236,193             | 144,267             |
| <b>Net insurance revenue</b>                               | <b>4</b> | <b>45,733,893</b>   | <b>40,361,864</b>   |
| Interest income  | 5        | 620,332             | 695,579             |
| Commission income  | 6        | 622,693             | 1,214,133           |
| <b>TOTAL REVENUE</b>                                       |          | <b>46,976,918</b>   | <b>42,271,576</b>   |
| Insurance benefits and claims paid                         | 7        | (34,791,735)        | (32,448,707)        |
| Claims ceded to reinsurers                                 | 7        | 3,419,237           | 5,146,732           |
| Changes in other insurance reserves                        | 17       | (9,825,339)         | 332,741             |
| Changes in other insurance reserves ceded to reinsurers    | 17       | 7,785,096           | (631,979)           |
| Income from subrogation and recoveries                     | 8        | 13,648,415          | 2,418,941           |
| Income from subrogation and recoveries ceded to reinsurers | 8        | (10,657,893)        | (476,587)           |
| <b>Net benefits and claims</b>                             |          | <b>(30,422,219)</b> | <b>(25,658,859)</b> |
| Commission expenses  | 9        | (4,614,474)         | (4,343,929)         |
| General and administrative expenses                        | 10       | (8,730,427)         | (8,375,129)         |
| Marketing expenses   | 11       | (1,056,561)         | (1,006,355)         |
| Impairment and write off expense                           | 12       | (2,169,477)         | (624,071)           |
| Interest expense   | 5        | (302,628)           | (398,126)           |
| Other income and expenses, net                             |          | 168,699             | 187,225             |
| Net foreign exchange gain                                  |          | 109,492             | 88,631              |
| <b>PROFIT BEFORE TAX</b>                                   |          | <b>(40,677)</b>     | <b>2,140,963</b>    |
| Income tax expense   | 13       | (268,319)           | 84,702              |
| <b>(LOSS) / PROFIT FOR THE YEAR</b>                        |          | <b>(308,996)</b>    | <b>2,225,665</b>    |
| <b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>             |          | <b>-</b>            | <b>-</b>            |
| <b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>    |          | <b>(308,996)</b>    | <b>2,225,665</b>    |

Kartlos Koranashvili  
Director

Besik Natenadze  
Financial Director

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF FINANCIAL POSITION

| ASSETS  | Notes | 2020              | 2019              |
|---|-------|-------------------|-------------------|
| Property and equipment                                | 14    | 3,835,632         | 2,423,385         |
| Intangible assets                                     | 15    | 524,659           | 345,796           |
| Investment property                                   | 16    | 762,800           | 762,800           |
| Deferred acquisition costs                            | 9     | 2,121,322         | 2,014,673         |
| Reinsurance assets                                    | 17    | 15,295,682        | 7,274,393         |
| Other assets  | 18    | 2,094,041         | 2,490,283         |
| Insurance and reinsurance receivables                 | 19    | 50,625,686        | 36,950,711        |
| Amounts due from credit institutions                  | 20    | 6,187,556         | 6,601,895         |
| Cash and cash equivalents                             | 20    | 2,420,936         | 1,356,756         |
| <b>TOTAL ASSETS</b>                                   |       | <b>83,868,314</b> | <b>60,220,692</b> |
| <b>EQUITY AND LIABILITIES</b>                         |       |                   |                   |
| <b>EQUITY</b>   |       |                   |                   |
| Share capital   | 21    | 3,485,210         | 3,485,210         |
| Revaluation surplus                                   | 21    | 158,907           | 158,907           |
| Retained earnings                                     |       | 6,862,135         | 7,409,527         |
| <b>TOTAL EQUITY</b>                                   |       | <b>10,506,252</b> | <b>11,053,644</b> |
| <b>LIABILITIES</b>                                    |       |                   |                   |
| Liabilities from insurance contracts                  | 17    | 43,297,520        | 30,283,295        |
| Other insurance liabilities                           | 22    | 22,828,375        | 13,506,877        |
| Deferred commission income from reinsurance contracts | 6     | 365,003           | 254,848           |
| Borrowings and lease liabilities                      | 23    | 4,076,592         | 3,361,424         |
| Trade and other payables                              | 24    | 2,371,573         | 1,508,961         |
| Deferred tax liability                                | 13    | 98,717            | 3,248             |
| Current income tax                                    |       | 324,282           | 248,395           |
| <b>TOTAL LIABILITIES</b>                              |       | <b>73,362,062</b> | <b>49,167,048</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                   |       | <b>83,868,314</b> | <b>60,220,692</b> |

Kartlos Koranashvili  
Director

Besik Natenadze  
Financial Director

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF CHANGES IN EQUITY

|                            | Share capital    | Revaluation<br>surplus | Retained<br>earnings | Total             |
|----------------------------|------------------|------------------------|----------------------|-------------------|
| <b>At 1 January 2019</b>   | <b>2,600,000</b> | <b>158,907</b>         | <b>5,378,579</b>     | <b>8,137,486</b>  |
| Issue of ordinary shares   | 885,210          | -                      | -                    | 885,210           |
| Profit for the year        | -                | -                      | 2,225,665            | 2,225,665         |
| Dividends paid             | -                | -                      | (194,717)            | (194,717)         |
| <b>At 31 December 2019</b> | <b>3,485,210</b> | <b>158,907</b>         | <b>7,409,527</b>     | <b>11,053,644</b> |
| Loss for the year          | -                | -                      | (308,996)            | (308,996)         |
| Dividends paid             | -                | -                      | (238,396)            | (238,396)         |
| <b>At 31 December 2020</b> | <b>3,485,210</b> | <b>158,907</b>         | <b>6,862,135</b>     | <b>10,506,252</b> |

Kartlos Koranashvili  
Director

Besik Natenadze  
Financial Director



ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF CASH FLOWS

|   | Note        | 2020                | 2019                |
|---|-------------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |             |                     |                     |
| Receipts from customers (insurance premium)                       |             | 46,695,260          | 42,665,512          |
| Payments to reinsurers  |             | (1,944,225)         | (1,508,288)         |
| <b>Net receipts of premiums</b>                                   |             | <b>44,751,035</b>   | <b>41,157,224</b>   |
| Payments for insurance claims                                     |             | (33,669,680)        | (30,943,337)        |
| Reimbursements from reinsurers and subrogation                    |             | 3,476,507           | 3,343,423           |
| <b>Net payments for insurance claims</b>                          |             | <b>(30,193,173)</b> | <b>(27,599,914)</b> |
| Payments for acquisition costs                                    |             | (1,095,618)         | (1,048,618)         |
| Payments for leases   |             | (515,453)           | (350,389)           |
| Payments to suppliers and employees                               |             | (10,647,517)        | (9,170,072)         |
| <b>Net cash flow generated from operations</b>                    |             | <b>2,299,274</b>    | <b>2,988,231</b>    |
| Interest paid   |             | (174,910)           | (287,050)           |
| Taxes paid  |             | (2,365,500)         | (3,224,077)         |
| <b>Net cash used in operating activities</b>                      |             | <b>(241,136)</b>    | <b>(522,896)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |             |                     |                     |
| Purchase of fixed and intangible assets                           |             | (150,689)           | (158,195)           |
| Proceeds from sale of property, plant and equipment               |             | -                   | 144,900             |
| Loans issued  |             | (1,280,050)         | (2,141,145)         |
| Repayment of loans issued   |             | 1,316,600           | 2,195,781           |
| Interest received   |             | 819,057             | 441,366             |
| <b>Net cash generated by investing activities</b>                 |             | <b>704,918</b>      | <b>482,707</b>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                       |             |                     |                     |
| Proceeds of new borrowings  |             | 4,344,243           | 4,096,782           |
| Repayment of borrowings   |             | (4,630,691)         | (4,198,665)         |
| Proceeds from issue of shares                                     | 21          | -                   | 885,210             |
| Dividends paid  | 21          | (226,476)           | (194,717)           |
| <b>Net cash (used in) / generated by financing activities</b>     |             | <b>(512,924)</b>    | <b>588,610</b>      |
| <b>CASH AND CASH EQUIVALENTS</b>                                  |             |                     |                     |
| <b>At 1 January</b>   |             | <b>7,908,306</b>    | <b>7,167,916</b>    |
| Net (decrease) / increase in the year                             |             | (49,142)            | 548,421             |
| Effect of exchange rate changes on cash and cash equivalents held |             | 696,968             | 191,969             |
| <b>At 31 December</b>   | <b>20 b</b> | <b>8,556,132</b>    | <b>7,908,306</b>    |
| <b>COMPRISING</b>   |             |                     |                     |
| Cash and cash equivalents   | 20          | 2,420,936           | 1,356,756           |
| Amounts due from credit institutions                              | 20          | 6,187,556           | 6,601,895           |
| <b>TOTAL PER THE STATEMENT OF FINANCIAL POSITION</b>              |             | <b>8,608,492</b>    | <b>7,958,651</b>    |
| Less accrued interest   |             | (52,360)            | (50,345)            |
| <b>TOTAL FOR THE STATEMENT OF CASH FLOWS PURPOSES</b>             | <b>20 b</b> | <b>8,556,132</b>    | <b>7,908,306</b>    |

Kartlos Koranashvili  
Director

Besik Natenadze  
Financial Director

## 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 6 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:

|  | 2020   | 2019   |
|--|--------|--------|
| Armaz Tavadze                              | 63.16% | 63.16% |
| Zaza Nishnianidze                          | 21.05% | 21.05% |
| Assets Management Company Ardi Capital Ltd | 9.47%  | 9.47%  |
| Gazelle Finance Georgia LLC                | 6.32%  | 6.32%  |
|  | 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 2020.

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) NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED**

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.

**New and amended standards in issue but not yet effective**

International Accounting Standards Board (IASB) has issued certain new standards, interpretations and amendments to existing standards that are effective for subsequent reporting periods. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The Company's management does not expect that any other standard issued by IASB that has not yet entered into force will have a material impact on the Company's financial statements:

- 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 2023 from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach')). Management believes that the application of IFRS 9 will not have a significant effect on the Company's financial statements.
- IFRS 17 *Insurance Contracts* - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2023 (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. The application of IFRS 17 might have a significant effect on the Company's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**(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.

**NOTES (CONTINUED)**

**(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.

**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.



## NOTES (CONTINUED)

### (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.



**NOTES (CONTINUED)**

**(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.

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.

## NOTES (CONTINUED)

### (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:

|   |                   |
|---|-------------------|
| 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.



**NOTES (CONTINUED)**

**(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.

**(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.

**NOTES (CONTINUED)**

**(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:

|  | <b>GEL / USD</b> | <b>GEL / EUR</b> |
|--|------------------|------------------|
| Exchange rate as at 31 December 2020             | 3.28             | 4.02             |
| Average rate for the year ended 31 December 2020 | 3.11             | 3.55             |
| 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             |

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

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.



## NOTES (CONTINUED)

### (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.

### 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.

#### Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. There does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

#### 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.

**NOTES (CONTINUED)**

**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.

**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.



NOTES (CONTINUED)

4. NET INSURANCE REVENUE

|                                      | Gross<br>premiums | 2020<br>Premiums<br>ceded to<br>reinsurers | Net<br>premiums   | Gross<br>premiums | 2019<br>Premiums<br>ceded to<br>reinsurers | Net<br>premiums   |
|--------------------------------------|-------------------|--|-------------------|-------------------|--|-------------------|
| Medical (Health)                     | 34,496,411        | -  | 34,496,411        | 28,025,592        | -  | 28,025,592        |
| Road Transport Means                 | 4,855,469         | (233,646)                                  | 4,621,823         | 4,693,057         | -  | 4,693,057         |
| Suretyships                          | 4,014,257         | (2,311,562)                                | 1,702,695         | 3,964,691         | (2,202,086)                                | 1,762,605         |
| Property                             | 3,139,894         | (955,485)                                  | 2,184,409         | 4,195,400         | (1,431,197)                                | 2,764,203         |
| Third Party Liability                | 1,921,508         | (72,942)                                   | 1,848,566         | 1,865,853         | (152,291)                                  | 1,713,562         |
| Motor TPL (Compulsory)               | 1,202,900         | -  | 1,202,900         | 2,261,523         | -  | 2,261,523         |
| Life                                 | 843,919           | (208,132)                                  | 635,787           | 305,001           | (30,335)                                   | 274,666           |
| Motor Third Party Liability          | 715,572           | -  | 715,572           | 602,193           | -  | 602,193           |
| Personal Accident                    | 608,248           | (18,382)                                   | 589,866           | 630,249           | (877)                                      | 629,372           |
| Travel                               | 479,141           | -  | 479,141           | 333,911           | -  | 333,911           |
| Cargo                                | 228,042           | (67,268)                                   | 160,774           | 821,818           | (283,438)                                  | 538,380           |
| Financial Loss Risks                 | 41,796            | -  | 41,796            | 65,006            | -  | 65,006            |
| Aviation Transport Means             | 37,665            | (33,051)                                   | 4,614             | 26,092            | (26,092)                                   | -                 |
| Marine Transport Means               | 9,377             | (7,145)                                    | 2,232             | -                 | -  | -                 |
| Aviation TPL                         | -                 | -  | -                 | 11,690            | (11,690)                                   | -                 |
|                                      | <b>52,594,199</b> | <b>(3,907,613)</b>                         | <b>48,686,586</b> | <b>47,802,076</b> | <b>(4,138,006)</b>                         | <b>43,664,070</b> |
| Changes in unearned premium reserves | (3,188,886)       | 236,193                                    | (2,952,693)       | (3,446,473)       | 144,267                                    | (3,302,206)       |
| <b>Net insurance revenue</b>         | <b>49,405,313</b> | <b>(3,671,420)</b>                         | <b>45,733,893</b> | <b>44,355,603</b> | <b>(3,993,739)</b>                         | <b>40,361,864</b> |

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 effective during the period of the loan agreement.

Gross premiums include premiums of GEL 418,896 (2019: GEL 1,313,248) from fronting insurance contracts (contracts where 100% of insurance risk is reinsured) and premiums ceded to reinsurers include such premiums of GEL 286,571 (2019: GEL 698,410).

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.

**NOTES (CONTINUED)**

**5. INTEREST INCOME AND EXPENSE**

|                                       | 2020             | 2019             |
|---------------------------------------|------------------|------------------|
| Interest income from loans issued     | 262,798          | 331,454          |
| Interest income from deposits         | 357,534          | 364,125          |
| <b>Interest income (at EIR)</b>       | <b>620,332</b>   | <b>695,579</b>   |
| Interest expense on bank loans        | (171,155)        | (148,742)        |
| Interest expense on other loans       | (4,054)          | (148,978)        |
| Interest expense on lease liabilities | (127,419)        | (100,406)        |
| <b>Interest expense (at EIR)</b>      | <b>(302,628)</b> | <b>(398,126)</b> |
| <b>Net interest income (at EIR)</b>   | <b>317,704</b>   | <b>297,453</b>   |

**6. COMMISSION INCOME**

|  | 2020           | 2019             |
|--|----------------|------------------|
| Gross commission income                      | 732,848        | 1,280,182        |
| Commission income deferred                   | (303,310)      | (220,086)        |
| Amortization of prior period income deferred | 193,155        | 154,037          |
| <b>Commission income</b>                     | <b>622,693</b> | <b>1,214,133</b> |

Commission income is generated from reinsurance contracts and calculated as the certain percentage of earned premiums.

Movement of deferred commission income:

|  | 2020           | 2019           |
|--|----------------|----------------|
| <b>Deferred commission income at 1 January</b>   | <b>254,848</b> | <b>265,491</b> |
| Gross commission income                          | 732,848        | 1,280,182      |
| Correction of prior periods                      | -              | (76,692)       |
| Amortization                                     | (622,693)      | (1,214,133)    |
| <b>Deferred commission income at 31 December</b> | <b>365,003</b> | <b>254,848</b> |

The realization of deferred commission income amounted GEL 212.169 is expected within 12 months' scope.



NOTES (CONTINUED)

7. INSURANCE BENEFITS AND CLAIMS PAID

|  | Paid              | 2020<br>Ceded to<br>reinsurers | Net<br>payment    | Paid              | 2019<br>Ceded to<br>reinsurers | Net<br>payment    |
|--|-------------------|--------------------------------|-------------------|-------------------|--------------------------------|-------------------|
| Medical (Health)                             | 24,692,827        | -                              | 24,692,827        | 20,616,821        | -                              | 20,616,821        |
| Road Transport Means                         | 4,155,213         | (24,809)                       | 4,130,404         | 3,720,321         | -                              | 3,720,321         |
| Suretyships                                  | 3,706,257         | (2,478,186)                    | 1,228,071         | 3,845,002         | (2,438,680)                    | 1,406,322         |
| Property                                     | 1,390,617         | (916,242)                      | 474,375           | 3,449,795         | (2,708,052)                    | 741,743           |
| Motor TPL                                    | 417,147           | -                              | 417,147           | 453,221           | -                              | 453,221           |
| Life   | 156,644           | -                              | 156,644           | 37,192            | -                              | 37,192            |
| Motor TPL (Compulsory)                       | 93,237            | -                              | 93,237            | 122,812           | -                              | 122,812           |
| Financial loss Risks                         | 82,516            | -                              | 82,516            | 72,471            | -                              | 72,471            |
| Travel                                       | 60,356            | -                              | 60,356            | 32,037            | -                              | 32,037            |
| Cargo  | 10,392            | -                              | 10,392            | 20,841            | -                              | 20,841            |
| Third Party Liability                        | 5,000             | -                              | 5,000             | 45,710            | -                              | 45,710            |
| Personal Accident                            | 969               | -                              | 969               | 8,660             | -                              | 8,660             |
| Other Expenses related to<br>claims handling | 20,560            | -                              | 20,560            | 23,824            | -                              | 23,824            |
| <b>Total:</b>                                | <b>34,791,735</b> | <b>(3,419,237)</b>             | <b>31,372,498</b> | <b>32,448,707</b> | <b>(5,146,732)</b>             | <b>27,301,975</b> |

Other expenses related to claims handling are expertise costs, that are incurred in order to determine claim volume.

8. SUBROGATION AND RECOVERIES

Movement of receivable from subrogation and recoveries:

|   | 2020              | 2019             |
|---|-------------------|------------------|
| <b>At 1 January</b>                               | <b>8,550,015</b>  | <b>7,803,937</b> |
| <b>Net income from subrogation and recoveries</b> | <b>13,648,415</b> | <b>2,418,941</b> |
| Compensations received                            | (1,522,596)       | (1,672,863)      |
| <b>At 31 December</b>                             | <b>20,675,834</b> | <b>8,550,015</b> |

Movement of reinsurers' share in subrogation receivable:

|  | 2020              | 2019             |
|--|-------------------|------------------|
| <b>At 1 January</b>  | <b>6,647,013</b>  | <b>6,548,006</b> |
| <b>Reinsurers' share in net income from subrogation and recoveries</b> | <b>10,657,893</b> | <b>476,587</b>   |
| Compensations received   | (622,060)         | (377,580)        |
| <b>At 31 December</b>  | <b>16,682,846</b> | <b>6,647,013</b> |

**NOTES (CONTINUED)**

**9. COMMISSION EXPENSES (ACQUISITION COSTS)**

|   | 2020             | 2019             |
|---|------------------|------------------|
| Acquisition costs                         | 4,721,123        | 4,719,623        |
| Acquisition costs deferred                | (1,840,906)      | (1,746,853)      |
| Amortization of deferred acquisition cost | 1,734,257        | 1,371,159        |
| <b>Commission expenses</b>                | <b>4,614,474</b> | <b>4,343,929</b> |

Movement of deferred acquisition costs:

|   | 2020             | 2019             |
|---|------------------|------------------|
| <b>Deferred acquisition costs, at 1 January</b>   | <b>2,014,673</b> | <b>1,638,979</b> |
| Acquisition Cost                                  | 4,721,123        | 4,719,623        |
| Commission expense                                | (4,614,474)      | (4,343,929)      |
| <b>Deferred acquisition costs, at 31 December</b> | <b>2,121,322</b> | <b>2,014,673</b> |

The deferred acquisition costs will be expensed during the period of:

|  | 2020             | 2019             |
|--|------------------|------------------|
| Less than 1 year                       | 1,844,133        | 1,703,509        |
| More than 1 year and less than 5 years | 277,189          | 311,164          |
|  | <b>2,121,322</b> | <b>2,014,673</b> |

**10. GENERAL AND OTHER ADMINISTRATIVE EXPENSES**

|  | 2020             | 2019             |
|--|------------------|------------------|
| Employee compensation                      | 5,906,259        | 5,500,188        |
| Depreciation and amortization              | 779,496          | 597,523          |
| Insurance State Supervision fee            | 442,991          | 354,111          |
| CIC membership fee                         | 175,832          | 272,745          |
| Taxes other than CIT                       | 159,245          | 142,286          |
| Communication expenses                     | 141,933          | 173,862          |
| Office expenses                            | 121,174          | 244,629          |
| Rent*                                      | 120,666          | 142,585          |
| Representative expenses                    | 95,181           | 132,837          |
| Utilities                                  | 89,749           | 91,764           |
| Audit and consultation expenses**          | 90,177           | 145,128          |
| Other G&A expenses                         | 607,724          | 577,471          |
| <b>General and administrative expenses</b> | <b>8,730,427</b> | <b>8,375,129</b> |

\* Rent includes rent expenses on short-term leases and on leases, that leased asset has low value.

\*\* Audit and consultation expenses includes audit fee amounted GEL 71,689.

**NOTES (CONTINUED)**

**11. MARKETING EXPENSES**

|                                 | 2020             | 2019             |
|---------------------------------|------------------|------------------|
| Salary of sales staff           | 833,252          | 787,149          |
| Advertising expenses            | 223,309          | 203,841          |
| Other sales expenses            | -                | 15,365           |
| <b>Total marketing expenses</b> | <b>1,056,561</b> | <b>1,006,355</b> |

**12. IMPAIRMENT AND WRITE OFF EXPENSE**

|  | 2020             | 2019           |
|--|------------------|----------------|
| Impairment of insurance premium receivable             | 2,003,077        | 103,506        |
| Write-off of loans issued (other assets)               | 283,606          | -              |
| (Recovery) / impairment of loans issued (other assets) | (117,206)        | 520,565        |
| <b>Impairment and write off expense / (recovery)</b>   | <b>2,169,477</b> | <b>624,071</b> |

**13. INCOME TAX**

|                                       | 2020           | 2019            |
|---------------------------------------|----------------|-----------------|
| Current income tax expense            | 204,053        | 214,481         |
| Deferred income tax expense           | 95,469         | (2,492)         |
| Write-off of deferred income tax      | -              | (188,390)       |
| Provision for current income taxes    | -              | 61,738          |
| Write-off of current income taxes     | (31,203)       | (170,039)       |
| <b>Income tax expense / (benefit)</b> | <b>268,319</b> | <b>(84,702)</b> |

Reconciliation of income tax expense:

|                                    | 2020           | 2019           |
|------------------------------------|----------------|----------------|
| Profit before income tax expense   | (40,677)       | 2,140,963      |
| <b>Income tax expense (15%)</b>    | <b>(6,102)</b> | <b>321,144</b> |
| Temporary differences              | (95,469)       | 2,492          |
| Provision for current income taxes | -              | (61,738)       |
| Permanent differences              | 305,624        | (47,417)       |
| <b>Current income tax expense</b>  | <b>204,053</b> | <b>214,481</b> |



ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTES (CONTINUED)**

Deferred tax liability comprises temporary differences attributable to:

|  | 2020          | 2019         |
|--|---------------|--------------|
| Property and equipment                     | 188,325       | 134,573      |
| Acquisition costs                          | (11,950)      | -            |
| Subrogation receivable, net of reinsurance | 141,924       | -            |
| Lease liabilities                          | (219,582)     | (131,325)    |
| <b>Total</b>                               | <b>98,717</b> | <b>3,248</b> |

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     |
|----------------------------|-----------|---------------------|---|--------------------------------|----------|--------------------------|-----------|
| <b>Cost</b>                |           |                     |   |                                |          |                          |           |
| At 1 Jan 2019              | 1,410,000 | -                   | 399,525                                 | 253,170                        | 110,823  | 176,321                  | 2,349,839 |
| IFRS16 Adj.                | -         | 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 Dec 2019             | 1,553,100 | 1,407,138           | 471,548                                 | 335,277                        | 88,832   | 254,420                  | 4,110,315 |
| Additions                  | -         | 942,480             | 347,656                                 | 133,996                        | 20,040   | 738,162                  | 2,182,334 |
| Disposals                  | -         | (563,625)           | (9,030)                                 | -                              | -        | -                        | (572,655) |
| At 31 Dec 2020             | 1,553,100 | 1,785,993           | 810,174                                 | 469,273                        | 108,872  | 992,582                  | 5,719,994 |
| <b>Acc. dep.</b>           |           |                     |   |                                |          |                          |           |
| At 1 Jan 2019              | 180,000   | -                   | 261,118                                 | 170,605                        | 58,483   | 98,459                   | 768,665   |
| IFRS16 Adj.                | -         | 407,695             | -                                       | -                              | -        | -                        | 407,695   |
| Dep. for the period        | 62,862    | 324,224             | 49,793                                  | 37,525                         | 17,333   | 29,627                   | 521,364   |
| Disposals                  | -         | -                   | -                                       | -                              | (10,794) | -                        | (10,794)  |
| At 31 Dec 2019             | 242,862   | 731,919             | 310,911                                 | 208,130                        | 65,022   | 128,086                  | 1,686,930 |
| Dep. for the period        | 65,724    | 363,516             | 85,423                                  | 52,147                         | 10,577   | 106,742                  | 684,129   |
| Disposals                  | -         | (477,667)           | (9,030)                                 | -                              | -        | -                        | (486,697) |
| At 31 Dec 2020             | 308,586   | 617,768             | 387,304                                 | 260,277                        | 75,599   | 234,828                  | 1,884,362 |
| <b>Net carrying amount</b> |           |                     |   |                                |          |                          |           |
| At 31 Dec 2019             | 1,310,238 | 675,219             | 160,637                                 | 127,147                        | 23,810   | 126,334                  | 2,423,385 |
| At 31 Dec 2020             | 1,244,514 | 1,168,225           | 422,870                                 | 208,996                        | 33,273   | 757,754                  | 3,835,632 |

## NOTES (CONTINUED)

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 196,903 (2019: GEL 173,397). Furniture and office equipment equals to 104,258 (2019: GEL 86,547).

## 15. INTANGIBLE ASSETS

|                                 | Licenses | Computer software | Other | Total   |
|---------------------------------|----------|-------------------|-------|---------|
| <b>Cost</b>                     |          |                   |       |         |
| At 1 January 2019               | 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 |
| Additions                       | -        | 274,230           | -     | 274,230 |
| At 31 December 2020             | 64,877   | 782,980           | 1,900 | 849,757 |
| <b>Accumulated depreciation</b> |          |                   |       |         |
| At 1 January 2019               | 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 |
| Depreciation for the period     | 9,732    | 85,350            | 285   | 95,367  |
| At 31 December 2020             | 32,181   | 291,349           | 1,568 | 325,098 |
| <b>Net carrying amount</b>      |          |                   |       |         |
| At 31 December 2019             | 42,428   | 302,751           | 617   | 345,796 |
| At 31 December 2020             | 32,696   | 491,631           | 332   | 524,659 |

Amortisation has been charged entirely to general and administrative expenses.

**NOTES (CONTINUED)**

**16. INVESTMENT PROPERTY**

|                               | <b>2020</b>    | <b>2019</b>    |
|-------------------------------|----------------|----------------|
| Land plots                    | 602,300        | 602,300        |
| Apartments under construction | 160,500        | 160,500        |
| <b>At 31 December</b>         | <b>762,800</b> | <b>762,800</b> |

Land plots are located in Tbilisi (0.4 ha) and Tetritskaro (5 ha). Land plot of GEL 287,000 is sequestered by the court.

Apartments under construction contains apartments located in Tbilisi and Batumi. As at 31 December 2020 Batumi apartment (GEL 30.250) is sequestered by the court.

The property is not rented out. Management believes that the fair value of the property is significantly more than its carrying amount.

**17. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS**

|  | <b>2020</b>       | <b>2019</b>       |
|--|-------------------|-------------------|
| Unearned premium provision (UPR)                       | 22,348,993        | 19,160,107        |
| Provisions for claims reported by policyholders (RBNS) | 19,353,709        | 9,573,852         |
| Provisions for claims incurred but not reported (IBNR) | 1,594,818         | 1,549,336         |
| <b>Liabilities from insurance contracts</b>            | <b>43,297,520</b> | <b>30,283,295</b> |

**Sensitivity Analysis - UPR**

Increase in loss ratio by 10% (as result of increase of average claim or frequency/number of claims) – Increase by GEL 1,883,908 (2019: GEL 1,564,430)

Increase in Company's administrative expenses by 10% - Increase by GEL 261,259 (2019: GEL 446,980 GEL)

**Sensitivity Analysis – RBNS**

Increase in average claim by 10% - Increase by GEL 1,935,430 (2019: GEL 1,935,371)

Increase of delay in settlement by 10% (caused by deficit of cash) – Increase by GEL 691,253 (2019: GEL 774,148)

**Sensitivity Analysis - IBNR**

Increase in ultimate loss ratio by 10% for Q4 2019 (2018) AY (as result of increase of average claim and frequency/number of claims) – Increase by GEL 284,536 (2019: GEL 350,860)

Increase of delay in settlement by 10% (caused by delay of claim's reporting) – Increase by GEL 710,256 (2019: GEL 494,394)



**NOTES (CONTINUED)**

Reinsurers' share in the liabilities from insurance contracts were as follows:

|                           | 2020              | 2019             |
|---------------------------|-------------------|------------------|
| Reinsurers' share in UPR  | 1,659,828         | 1,423,635        |
| Reinsurers' share in RBNS | 13,440,473        | 5,640,641        |
| Reinsurers' share in IBNR | 195,381           | 210,117          |
| <b>Reinsurance assets</b> | <b>15,295,682</b> | <b>7,274,393</b> |

Liabilities from insurance contracts net of reinsurance were as follows:

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| Unearned premium provision (UPR)                       | 20,602,628        | 17,649,935        |
| Provisions for claims reported by policyholders (RBNS) | 5,913,236         | 3,933,211         |
| Provisions for claims incurred but not reported (IBNR) | 1,399,437         | 1,339,219         |
| <b>Net liabilities from insurance contracts</b>        | <b>27,915,301</b> | <b>22,922,365</b> |

a) Analyses of movement in UPR, gross of reinsurance:

|                               | 2020              | 2019              |
|-------------------------------|-------------------|-------------------|
| <b>Balance at 1 January</b>   | <b>19,160,107</b> | <b>15,713,634</b> |
| Gross written premium         | 52,594,199        | 47,802,076        |
| Gross earned premium          | (49,405,313)      | (44,355,603)      |
| <b>Balance at 31 December</b> | <b>22,348,993</b> | <b>19,160,107</b> |

b) Analyses of movement in UPR, reinsurer's share:

|  | 2020             | 2019             |
|--|------------------|------------------|
| <b>Balance at 1 January</b>                | <b>1,423,635</b> | <b>1,279,368</b> |
| Reinsurer's share of gross written premium | 3,907,613        | 4,138,006        |
| Gross reinsurer's earned premium           | (3,671,420)      | (3,993,739)      |
| <b>Balance at 31 December</b>              | <b>1,659,828</b> | <b>1,423,635</b> |

c) Analyses of movement in UPR, net of reinsurance:

|                               | 2020              | 2019              |
|-------------------------------|-------------------|-------------------|
| <b>Balance at 1 January</b>   | <b>17,649,935</b> | <b>14,347,729</b> |
| Net written premium           | 48,686,586        | 43,664,070        |
| Net earned premium            | (45,733,893)      | (40,361,864)      |
| <b>Balance at 31 December</b> | <b>20,602,628</b> | <b>17,649,935</b> |

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

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Balance of incurred but not reported at 1 January       | 1,549,336         | 1,356,753         |
| Balance of reported but not settled claims at 1 January | 9,573,852         | 10,099,176        |
| <b>Total provisions for claims at 1 January</b>         | <b>11,123,188</b> | <b>11,455,929</b> |
| Payments in respect of prior year claims                | (3,022,032)       | (3,031,670)       |
| Change in estimates in respect of prior year claims     | 53,799            | (1,043,896)       |

NOTES (CONTINUED)

|   |                   |                   |
|---|-------------------|-------------------|
| Expected cost of current year claims                      | 44,542,715        | 33,136,038        |
| Payments in respect of current year claims                | (31,749,143)      | (29,393,213)      |
| <b>Total provisions for claims at 31 December</b>         | <b>20,948,527</b> | <b>11,123,188</b> |
| Balance of incurred but not reported at 31 December       | 1,594,818         | 1,549,336         |
| Balance of reported but not settled claims at 31 December | 19,353,709        | 9,573,852         |

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

|   | 2020              | 2019             |
|---|-------------------|------------------|
| Balance of incurred but not reported at 1 January         | 210,117           | 183,524          |
| Balance of reported but not settled claims at 1 January   | 5,640,641         | 6,299,213        |
| <b>Total provisions for claims at 1 January</b>           | <b>5,850,758</b>  | <b>6,482,737</b> |
| Payments in respect of prior year claims                  | (617,965)         | (752,798)        |
| Change in estimates in respect of prior year claims       | (10,583)          | (71,295)         |
| Expected cost of current year claims                      | 11,214,916        | 4,586,048        |
| Payments in respect of current year claims                | (2,801,272)       | (4,393,934)      |
| <b>Total provisions for claims at 31 December</b>         | <b>13,635,854</b> | <b>5,850,758</b> |
| Balance of incurred but not reported at 31 December       | 195,381           | 210,117          |
| Balance of reported but not settled claims at 31 December | 13,440,473        | 5,640,641        |

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

|   | 2020             | 2019             |
|---|------------------|------------------|
| Balance of incurred but not reported at 1 January         | 1,339,219        | 1,173,229        |
| Balance of reported but not settled claims at 1 January   | 3,933,211        | 3,799,963        |
| <b>Total provisions for claims at 1 January</b>           | <b>5,272,430</b> | <b>4,973,192</b> |
| Payments in respect of prior year claims                  | (2,404,067)      | (2,278,872)      |
| Change in estimates in respect of prior year claims       | 64,382           | (972,601)        |
| Expected cost of current year claims                      | 33,327,799       | 28,549,990       |
| Payments in respect of current year claims                | (28,947,871)     | (24,999,279)     |
| <b>Total provisions for claims at 31 December</b>         | <b>7,312,673</b> | <b>5,272,430</b> |
| Balance of incurred but not reported at 31 December       | 1,399,437        | 1,339,219        |
| Balance of reported but not settled claims at 31 December | 5,913,236        | 3,933,211        |

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

g) RBNS by insurance products:

|                             | 31 December 2020   |                                 |                  | 31 December 2019   |                                 |                  |
|-----------------------------|--|---------------------------------|------------------|--|---------------------------------|------------------|
|                             | Provisions for<br>claims<br>reported by<br>policyholders | Reinsurers'<br>share in<br>RBNS | NET              | Provisions for<br>claims<br>reported by<br>policyholders | Reinsurers'<br>share in<br>RBNS | NET              |
| Suretyships                 | 15,565,966   | 13,361,433                      | 2,204,533        | 6,170,599  | 5,111,800                       | 1,058,799        |
| Medical (Health)            | 3,022,867  | -                               | 3,022,867        | 2,262,509  | -                               | 2,262,509        |
| Road Transport Means        | 216,553  | 400                             | 216,153          | 211,839  | -                               | 211,839          |
| Property                    | 200,990  | 78,640                          | 122,350          | 748,492  | 528,841                         | 219,651          |
| Travel                      | 108,466  | -                               | 108,466          | 53,366   | -                               | 53,366           |
| Financial Loss Risks        | 49,843   | -                               | 49,843           | 42,749   | -                               | 42,749           |
| Motor TPL (Compulsory)      | 49,352   | -                               | 49,352           | 43,648   | -                               | 43,648           |
| Cargo                       | 55,794   | -                               | 55,794           | -  | -                               | -                |
| Motor Third Party Liability | 32,101   | -                               | 32,101           | 12,130   | -                               | 12,130           |
| Third Party Liability       | 32,069   | -                               | 32,069           | 11,397   | -                               | 11,397           |
| Personal Accident           | 19,646   | -                               | 19,646           | 17,063   | -                               | 17,063           |
| Life                        | 62   | -                               | 62               | 60   | -                               | 60               |
| <b>Total</b>                | <b>19,353,709</b>  | <b>13,440,473</b>               | <b>5,913,236</b> | <b>9,573,852</b>   | <b>5,640,641</b>                | <b>3,933,211</b> |

h) IBNR by insurance products:

|  | IBNR<br>2020     | IBNR net of<br>reinsurance<br>2020 | IBNR<br>2019     | IBNR net of<br>reinsurance<br>2019 |
|--|------------------|------------------------------------|------------------|------------------------------------|
| Medical (Health)                         | 689,928          | 689,928                            | 560,512          | 560,512                            |
| Road Transport Means                     | 242,773          | 231,091                            | 234,653          | 234,653                            |
| Suretyships                              | 200,713          | 85,135                             | 198,235          | 88,130                             |
| Property                                 | 156,995          | 109,220                            | 209,770          | 134,993                            |
| Third Party Liability                    | 96,075           | 92,428                             | 93,293           | 85,678                             |
| Motor Third Party Liability (Compulsory) | 60,145           | 60,145                             | 113,076          | 113,076                            |
| Life                                     | 42,196           | 31,789                             | 15,250           | 13,733                             |
| Motor Third Party Liability              | 35,779           | 35,779                             | 30,110           | 30,110                             |
| Personal Accident                        | 30,412           | 29,493                             | 31,512           | 31,469                             |
| Travel                                   | 23,957           | 23,957                             | 16,696           | 16,696                             |
| Cargo                                    | 11,402           | 8,039                              | 41,091           | 26,919                             |
| Financial Loss Risks                     | 2,090            | 2,090                              | 3,250            | 3,250                              |
| Aviation Transport Means (Hull)          | 1,883            | 231                                | 1,303            | -                                  |
| Marine Transport Means (Hull)            | 469              | 112                                | -                | -                                  |
| Aviation Third Party Liability           | -                | -                                  | 585              | -                                  |
| <b>Total</b>                             | <b>1,594,818</b> | <b>1,399,437</b>                   | <b>1,549,336</b> | <b>1,339,219</b>                   |



**NOTES (CONTINUED)**

j) aging of Provisions for claims reported by policyholders (RBNS) based on claim dates for the year ended 31 December 2020 is presented below:

|               | Less than 1 year  | 1-5 year         | more than 5 year | Total             |
|---------------|-------------------|------------------|------------------|-------------------|
| Providers     | 2,568,908         | 203,755          | 223,993          | 2,996,656         |
| Individual    | 26,212            | -                | -                | 26,212            |
| Non-health    | 10,167,760        | 5,349,829        | 813,252          | 16,330,841        |
| <b>Total:</b> | <b>12,762,880</b> | <b>5,553,584</b> | <b>1,037,245</b> | <b>19,353,709</b> |

aging of Provisions for claims reported by policyholders (RBNS) based on claim dates 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        |
| <b>Total:</b> | <b>3,623,782</b> | <b>5,146,151</b> | <b>803,919</b>   | <b>9,573,852</b> |

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

**18. OTHER ASSETS**

|                                 | 2020             | 2019             |
|---------------------------------|------------------|------------------|
| Loans issued                    | 2,403,775        | 2,989,493        |
| Allowance for impairment losses | (480,755)        | (597,961)        |
| <b>Net loans issued</b>         | <b>1,923,020</b> | <b>2,391,532</b> |
| Advances paid                   | 17,219           | 17,219           |
| Inventory                       | 65,000           | 47,396           |
| Prepayments to employees        | 8,354            | 7,536            |
| Other receivables               | 80,448           | 26,600           |
| <b>OTHER ASSETS</b>             | <b>2,094,041</b> | <b>2,490,283</b> |

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 is disclosed in Note 25

All the loans issued are collateralized.

## NOTES (CONTINUED)

As of 31 December, 2020 the company has 11 loans issued, out of which 4 loans are to individuals and 7 to legal entities. Interest rate fluctuates from 10% to 20% in GEL and one loan issued is nominated in USD and interest rate is 9.8%

All loans except one (2020: 179,597 GEL; 2019: 103,497 GEL) are overdue. The amount of collateral of overdue loans is sufficient to cover both the principal and interest of the loan.

Interest income on loans issued is disclosed in Note 5.

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

|                     | 2020      | 2019    |
|---------------------|-----------|---------|
| At 1 January        | 597,961   | 77,396  |
| Charge for the year | (117,206) | 520,565 |
| At 31 December      | 480,755   | 597,961 |

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).

## 19. INSURANCE AND REINSURANCE RECEIVABLES

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| Insurance premium receivable                             | 26,772,013        | 22,416,916        |
| Allowance for impairment losses                          | (4,814,430)       | (2,811,353)       |
| <b>Net insurance premium receivable</b>                  | <b>21,957,583</b> | <b>19,605,563</b> |
| Reinsurance receivable                                   | 7,992,269         | 8,795,133         |
| Subrogation receivable net of impairment losses (Note 8) | 20,675,834        | 8,550,015         |
| <b>Insurance receivables</b>                             | <b>50,625,686</b> | <b>36,950,711</b> |

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

Insurance premium receivable excluding unearned premium and fronting agreements is GEL 6,446,291. (2019: GEL 3,262,877)

Allowance for impairment losses as of 31 December, 2020 is presented below:

| Overdue Days    | Amount           | % of Impairment | Impairment       |
|-----------------|------------------|-----------------|------------------|
| Less than 31    | 296,396          | 0%              | -                |
| Between 31-90   | 478,451          | 25%             | 119,613          |
| Between 91-180  | 1,252,961        | 50%             | 626,481          |
| Between 181-365 | 1,400,585        | 75%             | 1,050,439        |
| More than 365   | 3,017,897        | 100%            | 3,017,897        |
|                 | <b>6,446,291</b> |                 | <b>4,814,430</b> |

Allowance for impairment losses as of 31 December, 2019 is presented below:

| Overdue Days | Amount | % of Impairment | Impairment |
|--------------|--------|-----------------|------------|
| Less than 31 | 38,730 | 0%              | -          |

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTES (CONTINUED)**

|                 |                  |      |                  |
|-----------------|------------------|------|------------------|
| Between 31-90   | 143,283          | 25%  | 35,821           |
| Between 91-180  | 327,890          | 50%  | 163,945          |
| Between 181-365 | 565,546          | 75%  | 424,160          |
| More than 365   | 2,187,428        | 100% | 2,187,428        |
|                 | <b>3,262,877</b> |      | <b>2,811,353</b> |

Analysis of credit risk is provided in Note 25.

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

|                       | <b>2020</b>      | <b>2019</b>      |
|-----------------------|------------------|------------------|
| <b>At 1 January</b>   | <b>2,811,353</b> | <b>2,707,847</b> |
| Charge for the year   | 2,003,077        | 103,506          |
| <b>At 31 December</b> | <b>4,814,430</b> | <b>2,811,353</b> |

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:

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
| Cash on current accounts with banks         | 2,296,547        | 1,244,539        |
| Cash on hand                                | 124,389          | 112,217          |
| <b>Cash and cash equivalents</b>            | <b>2,420,936</b> | <b>1,356,756</b> |
| Short-term deposits                         | 6,135,196        | 6,551,550        |
| Accrued interest                            | 52,360           | 50,345           |
| <b>Amounts due from credit institutions</b> | <b>6,187,556</b> | <b>6,601,895</b> |

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

At 31 December 2020 interest rates on deposits in national currency is in range 6 - 13.5% (2019: 6 - 12.6%), in USD: 1.5 - 4.8% (2019: 2.5 - 4.8%)

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:

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
| Cash on current accounts with banks         | 2,296,547        | 1,244,539        |
| Cash on hand                                | 124,389          | 112,217          |
| Short-term deposits                         | 6,135,196        | 6,551,550        |
| <b>Amounts due from credit institutions</b> | <b>8,556,132</b> | <b>7,908,306</b> |

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



## NOTES (CONTINUED)

### 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 (2019: GEL 3,485,210) 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.

Revaluation surplus was recognized upon revaluation of property and equipment (Note 14).

### 22. OTHER INSURANCE LIABILITIES

|  | 2020              | 2019              |
|--|-------------------|-------------------|
| Reinsurance premium payable                          | 3,943,938         | 4,845,027         |
| Reinsurers' share in subrogation receivable (Note 8) | 16,682,846        | 6,647,013         |
| Insurance agents' commission payable (DAC)           | 2,201,591         | 2,014,837         |
| <b>Other insurance liabilities</b>                   | <b>22,828,375</b> | <b>13,506,877</b> |

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

### 23. BORROWINGS

|   | 2020             | 2019             |
|---|------------------|------------------|
| Procredit Bank JSC                      | 2,612,713        | 2,485,925        |
| <b>Borrowings</b>                       | <b>2,612,713</b> | <b>2,485,925</b> |
| Lease liabilities                       | 1,463,879        | 875,499          |
| <b>Borrowings and lease liabilities</b> | <b>4,076,592</b> | <b>3,361,424</b> |

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

Interest of the loan from Procredit Bank JSC is 8.5% for loan in USD, 5.5% for loan in EUR and 11.26% for loan in GEL. These rates are used for discounting of lease payments to measure lease liabilities.

All borrowings are repayable within one-year scope. Interest and principal are paid monthly.

As of 31 December, 2020 short-term lease liability is GEL 887,063 (2019: GEL 523,431).

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

|                                    | 2020             | 2019             |
|------------------------------------|------------------|------------------|
| Accounts payable                   | 839,334          | 619,155          |
| Accruals for employee compensation | 678,020          | 601,148          |
| Advances received                  | 668,481          | 113,259          |
| Taxes payable                      | 183,738          | 172,149          |
| Other payables                     | 2,000            | 3,250            |
| <b>Trade and other payables</b>    | <b>2,371,573</b> | <b>1,508,961</b> |

## NOTES (CONTINUED)

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

### 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 2020.

### 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.

Geographical concentration of reinsurance premium payables are as follows: 69% - UK; 16% - Russian Federation; 9% - USA; 6% - Georgia.



**NOTES (CONTINUED)**

**Insurance risk management**

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.

## NOTES (CONTINUED)

### 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.

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.

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTES (CONTINUED)**

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

| <b>FINANCIAL ASSETS</b>                      | <b>2020</b>       | <b>2019</b>       |
|--|-------------------|-------------------|
| Cash and cash equivalents                    | 2,420,936         | 1,356,756         |
| Amounts due from credit institutions         | 6,187,556         | 6,601,895         |
| Net insurance premium receivable (Note 19)   | 21,957,583        | 19,605,563        |
| Reinsurance receivable                       | 7,992,269         | 8,795,133         |
| Net subrogation receivable (Notes 19 and 22) | 3,992,988         | 1,903,002         |
| Net loans issued (Note 18)                   | 1,923,020         | 2,391,532         |
| <b>BALANCE AT 31 DECEMBER</b>                | <b>44,474,352</b> | <b>40,653,881</b> |

| <b>FINANCIAL LIABILITIES</b>                      | <b>2020</b>       | <b>2019</b>       |
|---|-------------------|-------------------|
| Net insurance claims (net RBNS and IBNR, Note 17) | 7,312,673         | 5,272,430         |
| Other insurance liabilities (Note 22)             | 6,145,529         | 6,859,864         |
| Borrowings and lease liability                    | 4,076,592         | 3,361,424         |
| Trade and other payables                          | 2,371,573         | 1,508,961         |
| Current income tax                                | 324,282           | 248,395           |
| <b>BALANCE AT 31 DECEMBER</b>                     | <b>20,230,649</b> | <b>17,251,074</b> |

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:

| 2020   |                  |                  |                   |                   |
|--|------------------|------------------|-------------------|-------------------|
| FAIR VALUE MEASUREMENT AT END OF THE REPORTING PERIOD USING: |                  |                  |                   |                   |
|  | Level 1          | Level 2          | Level 3           | Total             |
| <b>Financial assets</b>                                      |                  |                  |                   |                   |
| Cash and cash equivalents                                    | 2,420,936        | -                | -                 | 2,420,936         |
| Amounts due from credit institutions                         | -                | 6,187,556        | -                 | 6,187,556         |
| Net insurance premium receivable (Note 19)                   | -                | -                | 21,957,583        | 21,957,583        |
| Reinsurance receivable                                       | -                | -                | 7,992,269         | 7,992,269         |
| Net subrogation receivable (Notes 19 and 22)                 | -                | -                | 3,992,988         | 3,992,988         |
| Net loans issued (Note 18)                                   | -                | -                | 1,923,020         | 1,923,020         |
| <b>Total financial assets</b>                                | <b>2,420,936</b> | <b>6,187,556</b> | <b>35,865,860</b> | <b>44,474,352</b> |
| <b>Financial liabilities</b>                                 |                  |                  |                   |                   |
| Net insurance claims (net RBNS and IBNR, Note 17)            | -                | -                | 7,312,673         | 7,312,673         |
| Other insurance liabilities (Note 22)                        | -                | -                | 6,145,529         | 6,145,529         |
| Borrowings and lease liabilities                             | -                | 4,076,592        | -                 | 4,076,592         |
| Trade and other payables                                     | -                | -                | 2,371,573         | 2,371,573         |
| Current income tax   | -                | -                | 324,282           | 324,282           |
| <b>Total financial liabilities</b>                           | <b>-</b>         | <b>4,076,592</b> | <b>16,154,057</b> | <b>20,230,649</b> |



NOTES (CONTINUED)

| 2019  |                  |                  |                   |                   |
|---|------------------|------------------|-------------------|-------------------|
| FAIR VALUE MEASUREMENT AT END OF<br>THE REPORTING PERIOD USING: |                  |                  |                   |                   |
|   | Level 1          | Level 2          | Level 3           | Total             |
| <b>Financial assets</b>   |                  |                  |                   |                   |
| 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         |
| <b>Total financial assets</b>                                   | <b>1,356,756</b> | <b>6,601,895</b> | <b>32,695,230</b> | <b>40,653,881</b> |
| <b>Financial liabilities</b>                                    |                  |                  |                   |                   |
| 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           |
| <b>Total financial liabilities</b>                              | <b>-</b>         | <b>-</b>         | <b>17,251,074</b> | <b>17,251,074</b> |

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.

|   | 2020              | 2019              |
|---|-------------------|-------------------|
| Due from banks (Note 20)                            | 8,484,103         | 7,846,434         |
| Net past due insurance premium receivable (Note 19) | 6,844,265         | 4,379,199         |
| Reinsurance receivable                              | 7,992,269         | 8,795,133         |
| Net subrogation receivable (Notes 19 and 22)        | 3,992,988         | 1,903,002         |
| Net loans issued (Note 18)                          | 1,923,020         | 2,391,532         |
| <b>BALANCE AT 31 DECEMBER</b>                       | <b>29,236,645</b> | <b>25,315,300</b> |

Aging analysis of past due insurance premium receivable, including fronting agreements:

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Less than 31                    | 520,938          | 331,024          |
| Between 31-90                   | 659,162          | 264,571          |
| Between 91-180                  | 1,479,718        | 420,371          |
| Between 181-365                 | 1,650,090        | 666,320          |
| More than 365                   | 7,348,787        | 5,508,266        |
| Allowance for impairment losses | (4,814,430)      | (2,811,353)      |
| <b>BALANCE AT 31 DECEMBER</b>   | <b>6,844,265</b> | <b>4,379,199</b> |

ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTES (CONTINUED)**

**Liquidity risk - Financial liabilities' maturity analysis**

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

Liquidity position as of 31-12-2020:

| <b>FINANCIAL ASSETS</b>                      | <b>Less than 1 year</b> | <b>1-5 year</b>   | <b>more than 5 year</b> | <b>Total</b>      |
|--|-------------------------|-------------------|-------------------------|-------------------|
| Cash and cash equivalents                    | 2,420,936               | -                 | -                       | 2,420,936         |
| Amounts due from credit institutions         | 6,187,556               | -                 | -                       | 6,187,556         |
| Net insurance premium receivable (Note 19)   | 11,658,695              | 10,176,282        | 122,606                 | 21,957,583        |
| Reinsurance receivable                       | 7,992,269               | -                 | -                       | 7,992,269         |
| Net subrogation receivable (Notes 19 and 22) | 3,992,988               | -                 | -                       | 3,992,988         |
| Net loans issued (Note 18)                   | 1,923,020               | -                 | -                       | 1,923,020         |
| <b>BALANCE AT 31 DECEMBER</b>                | <b>34,175,464</b>       | <b>10,176,282</b> | <b>122,606</b>          | <b>44,474,352</b> |

  

| <b>FINANCIAL LIABILITIES</b>                      | <b>Less than 1 year</b> | <b>1-5 year</b>  | <b>more than 5 year</b> | <b>Total</b>      |
|---|-------------------------|------------------|-------------------------|-------------------|
| Net insurance claims (net RBNS and IBNR, Note 17) | 7,312,673               | -                | -                       | 7,312,673         |
| Other insurance liabilities (Note 22)             | 6,145,529               | -                | -                       | 6,145,529         |
| Borrowings and lease liability                    | 3,189,529               | 887,063          | -                       | 4,076,592         |
| Trade and other payables                          | 2,371,573               | -                | -                       | 2,371,573         |
| Current income tax                                | 324,282                 | -                | -                       | 324,282           |
| <b>BALANCE AT 31 DECEMBER</b>                     | <b>19,343,586</b>       | <b>887,063</b>   | <b>-</b>                | <b>20,230,649</b> |
| <b>LIQUIDITY POSITION</b>                         | <b>14,831,878</b>       | <b>9,289,219</b> | <b>122,606</b>          | <b>24,243,703</b> |

Liquidity position as of 31-12-2019:

| <b>FINANCIAL ASSETS</b>                      | <b>Less than 1 year</b> | <b>1-5 year</b>   | <b>more than 5 year</b> | <b>Total</b>      |
|--|-------------------------|-------------------|-------------------------|-------------------|
| 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)   | 7,190,552               | 12,415,011        | -                       | 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         |
| <b>BALANCE AT 31 DECEMBER</b>                | <b>28,238,870</b>       | <b>12,415,011</b> | <b>-</b>                | <b>40,653,881</b> |

| <b>FINANCIAL LIABILITIES</b>                      | <b>Less than 1 year</b> | <b>1-5 year</b> | <b>more than 5 year</b> | <b>Total</b> |
|---|-------------------------|-----------------|-------------------------|--------------|
| 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 liability                    | 3,009,356               | 352,068         | -                       | 3,361,424    |



ARDI INSURANCE JSC  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

**NOTES (CONTINUED)**

|                               |                   |                   |          |                   |
|-------------------------------|-------------------|-------------------|----------|-------------------|
| Trade and other payables      | 1,508,961         | -                 | -        | 1,508,961         |
| Current income tax            | 248,395           | -                 | -        | 248,395           |
| <b>BALANCE AT 31 DECEMBER</b> | <b>16,899,006</b> | <b>352,068</b>    | <b>-</b> | <b>17,251,074</b> |
| <b>LIQUIDITY POSITION</b>     | <b>11,339,864</b> | <b>12,062,943</b> | <b>-</b> | <b>23,402,807</b> |

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:

|                                       | <b>GEL</b>        | <b>USD</b>       | <b>EUR</b>     | <b>Total</b>      |
|---------------------------------------|-------------------|------------------|----------------|-------------------|
| Cash and cash equivalents             | 2,116,397         | 303,332          | 1,207          | 2,420,936         |
| Amounts due from credit institutions  | 2,232,719         | 3,954,837        | -              | 6,187,556         |
| Past due insurance premium receivable | 6,063,472         | 5,468,635        | 126,588        | 11,658,695        |
| <b>BALANCE AT 31 DECEMBER 2020</b>    | <b>10,412,588</b> | <b>9,726,804</b> | <b>127,795</b> | <b>20,267,187</b> |
| 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         |
| <b>BALANCE AT 31 DECEMBER 2019</b>    | <b>6,664,177</b>  | <b>8,398,881</b> | <b>86,145</b>  | <b>15,149,203</b> |

*Financial liabilities by currency*

The following table analyses the breakdown of liabilities by currency.

|                                    | <b>GEL</b>     | <b>USD</b>       | <b>EUR</b>       | <b>Total</b>     |
|------------------------------------|----------------|------------------|------------------|------------------|
| Borrowings                         | 697,443        | 4,257            | 1,911,013        | 2,612,713        |
| Lease liabilities                  | 63,793         | 1,400,086        | 0                | 1,463,879        |
| <b>BALANCE AT 31 DECEMBER 2020</b> | <b>761,236</b> | <b>1,404,343</b> | <b>1,911,013</b> | <b>4,076,592</b> |
| Borrowings                         | 686,265        | 38,289           | 1,761,371        | 2,485,925        |
| Lease liabilities                  | 140,568        | 734,931          | 0                | 875,499          |
| <b>BALANCE AT 31 DECEMBER 2019</b> | <b>826,833</b> | <b>773,220</b>   | <b>1,761,371</b> | <b>3,361,424</b> |



## NOTES (CONTINUED)

### *Sensitivity analysis*

A 10% increase / decrease in the exchange rate of GEL/USD would increase / cut profits after tax by GEL 707,409 (2019: GEL 648,181).

A 10% increase / decrease in the exchange rate of GEL/EUR would cut / increase profits by GEL 151,574 (2019: GEL 142,395).

### *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.

The Regulatory Capital is determined based on the IFRS equity, adjusted as prescribed by the ISSSG directive №16.

As at 31 December 2020, the Company was in compliance with the level of Regulatory Capital in excess of RSM.

Regulatory capital is disclosed below:

|  |                   |
|--|-------------------|
| <b>Total Capital</b>                     | <b>10,506,252</b> |
| <b>Deductions:</b>                       |                   |
| Goodwill and net other intangible assets | 524,659           |
| DAC                                      | -                 |
| Cash on hand over 100,000                | 24,389            |
| Investment property                      | 228,840           |
| Receivables                              | 80,448            |
| Advances                                 | 17,219            |
| Receivables from employees               | 8,354             |
| Inventories                              | 65,000            |
| Other                                    | -                 |

**NOTES (CONTINUED)**

|  |                  |
|--|------------------|
| <b>Total Deductions</b>                                  | <b>948,909</b>   |
| Regulatory capital (Total Capital less Total Deductions) | 9,557,343        |
| Minimum capital required                                 | 4,200,000        |
| Solvency rate  | 8,041,800        |
| <b>Supervisory Capital (Surplus / Loss)</b>              | <b>5,357,343</b> |
| <b>With minimum authorized capital</b>                   |                  |
| <b>Supervisory Capital (Surplus / Loss)</b>              | <b>1,515,544</b> |
| <b>With solvency rate</b>                                |                  |

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 2020, accordingly requirements of regulatory body is not violated.

**27. RELATED PARTY TRANSACTIONS**

Only material transactions with related parties were loans issued GEL 897,983 as of 31-12-2020 and GEL 517,485 as of 31-12-2019 (Other assets, Note 18) and corresponding interest income GEL 97,587 for 2020 and GEL 73,696 for 2019 (Note 5).

Compensation of key management personnel was as follows:

|                           | <b>2020</b> | <b>2019</b> |
|---------------------------|-------------|-------------|
| Key management salary     | 973,487     | 1,221,427   |
| Key management commission | 107,663     | 387,057     |

**28. CONTINGENCIES AND COMMITMENTS**

According to the decision of the Tbilisi City Court, the company was ordered to pay \$ 217,076 in compensation in favor of the plaintiff, Microsoft Corporation, for copyright infringement. On April 5, 2018, the company appealed against this decision to the Tbilisi Appeal in court and management believes it will win the case. The date of the court hearing is not known as of the date of signing the financial statements

**29. EVENTS AFTER REPORTING DATE**

These financial statements were authorized for issue by the management on 19 April, 2021.

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date.