JSC Insurance Company GPI Holding

Separate Financial Statements

for 2022

Contents

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Management of JSC Insurance Company GPI Holding (the "Company") is responsible for the accompanying separate financial statements presented on pages 10 to 41.

This responsibility includes:

- preparation of separate financial statements in accordance with International Financial Reporting Standards issued by IASB;
- selection of suitable accounting policies and their consistent application;
- making judgments and estimates which are reasonable and prudent;
- preparation of the separate financial statements on the going concern basis, unless circumstances make this inappropriate.

Management is also responsible for:

- creation, implementation and maintaining effective accounting and internal control systems;
- keeping proper accounting records in compliance with local regulations;
- taking such steps as are reasonably open to them to safeguard the assets of the Company, and
- prevention and detection of fraud and other irregularities.

The separate financial statements for the year ended 31 December 2022 were approved by the management and signed on its behalf by:

Paata Lomadze
General Director
JSC Insurance Company GPI Holding

Levan Zuroshvili
Chief Financial Officer
JSC Insurance Company GPI Holding

Date: 20 March 2023

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Independent Auditors' Report

To the Supervisory Board of JSC Insurance Company GPI Holding

Opinion

We have audited the separate financial statements of JSC Insurance Company GPI Holding (the "Company"), which comprise the separate statement of financial position as at 31 December 2022, the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2022, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

- is consistent with the separate financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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

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

In preparing the separate 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.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 separate financial statements.

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

– Identify and assess the risks of material misstatement of the separate 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 auditors' report to the related disclosures in the separate 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 auditors' 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Gevorgyan

KPMG Georgia LLC
Tbilisi, Georgia
20 March 2023

	Note	31 December 2022 GEL'000	31 December 2021 GEL'000
Assets			
Property and equipment	11	3,140	3,883
Intangible assets		3,190	1,847
Investment property		280	174
Investments in subsidiaries	12	1,180	1,180
Bank deposits	19	37,668	36,773
Loans receivable	19	3,165	2,980
Reinsurers' share in Insurance contract provisions	10	22,107	22,120
Insurance receivables	19	54,529	50,213
Deferred acquisition costs		7,688	6,531
Other assets	13	23,407	18,223
Cash and cash equivalents	14	5,557	6,396
Total assets		**161,911**	**150,320**
Equity			
Ordinary shares	15	37,972	37,972
Share premium		126	126
Revaluation reserve for property		2,572	2,572
Retained earnings		17,670	11,565
Total equity		**58,340**	**52,235**
Liabilities			
Insurance contract provisions	9		
Provision for unearned premiums		67,117	57,570
Provision for outstanding claims		14,480	17,353
Insurance and reinsurance payables		8,845	10,446
Investment contract liabilities	16	2,025	2,346
Trade and other payables	17	10,178	9,549
Deferred tax liability	8	926	821
Total liabilities		**103,571**	**98,085**
Total equity and liabilities		**161,911**	**150,320**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 20 March 2022

The notes set out on pages 10 to 41 form an integral part of the separate financial statements.

	Note	2022 GEL'000	2021 GEL'000
Income			
Gross premiums	9	162,337	135,966
Less: reinsurers' share of gross premiums	10	(90,603)	(74,727)
Net premiums		**71,734**	**61,239**
Change in the gross provision for unearned premiums	9	(9,547)	(5,679)
Change in the reinsurers' share in gross provision for unearned premiums	10	3,044	1,737
Net premiums earned		**65,231**	**57,297**
Commission and other income from reinsurance		16,772	14,857
Interest income from placements in banks		4,482	3,586
Investment and other income	5	1,304	2,089
Total income		**87,789**	**77,829**
Expenses			
Gross benefits and claims paid	9	(109,374)	(99,345)
Reinsurers' share of gross benefits and claims paid	10	59,571	46,043
Gross change in the provision for outstanding claims	9	2,873	3,391
Change in reinsurers' share in the provision for outstanding claims	10	(3,056)	3,659
Net benefits and claims		**(49,986)**	**(46,252)**
Interest expense		(91)	(119)
Direct acquisition fees and commissions		(5,712)	(5,598)
Other acquisition expenses	6	(18,568)	(15,927)
Change in deferred acquisition costs		1,157	(2,419)
Other operating and administrative expenses	7	(7,560)	(7,437)
Total expenses		**(80,760)**	**(77,752)**
Profit before income tax		**7,029**	**77**
Income tax expense	8	(924)	(12)
Profit for the year		**6,105**	**65**
Total comprehensive income for the year		**6,105**	**65**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 20 March 2023

The notes set out on pages 10 to 41 form an integral part of the separate financial statements.

	Note	2022 GEL'000	2021 GEL'000
Cash flow from operating activities			
Profit for the year		6,105	65
Adjustments for:			
Depreciation and amortization		1,213	1,278
Loss on disposal property and equipment and investment property		219	47
Interest income		(4,886)	(3,976)
Interest expense		91	119
Income tax expense		924	12
		3,666	**(2,455)**
Changes in operating assets and liabilities:			
Change in provision for unearned premiums, net of reinsurance		6,503	3,942
Change in provision for outstanding claims, net of reinsurance		183	(7,050)
Change in insurance receivables		(4,316)	1,970
Change in deferred acquisition costs		(1,157)	2,419
Change in other assets		(5,184)	2,029
Change in insurance and reinsurance payables		(1,602)	(365)
Change in investment contract liabilities		(321)	(193)
Change in trade and other payables		1,412	1,229
Total changes in operating assets and liabilities		**(4,482)**	**3,981**
Income tax paid		(1,110)	-
Net cash (used in)/from operating activities		**(1,926)**	**1,526**
Cash flow from investing activities			
Acquisition of property and equipment and intangible assets		(2,136)	(1,479)
Issuance of loans		-	(8)
Repayment of loans receivable		219	24
Acquisition of subsidiary		-	(500)
Acquisition of bonds		-	(882)
Placements on bank deposits		(35,350)	(35,106)
Withdrawals from bank deposits		35,126	32,870
Interest received		3,755	3,449
Net cash from/(used in) investing activities		**1,614**	**(1,632)**
Cash flow from financing activities			
Repayment of lease liabilities		(527)	(540)
Capital increase		-	3,600
Net cash (used in)/ from financing activities		**(527)**	**3,060**
(Decrease)/increase in cash and cash equivalents		**(839)**	**2,954**
Cash and cash equivalents at the beginning of the year		6,396	3,442
Cash and cash equivalents at the end of the year	14	**5,557**	**6,396**

Paata Lomadze
General Director

Levan Zuroshvili
Chief Financial Officer

Date: 20 March 2023

The notes set out on pages 10 to 41 form an integral part of the separate financial statements.

	Ordinary shares	Share premium	Revaluation reserve for property	Retained earnings	Total Equity
	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000
Balance as at 1 January 2021	32,030	126	2,572	13,842	**48,570**
Profit for the year	-	-	-	65	**65**
Dividend distribution	-	-	-	(2,342)	**(2,342)**
Issuance of shares	5,942	-	-	-	**5,942**
Balance as at 31 December 2021	**37,972**	**126**	**2,572**	**11,565**	**52,235**
Balance as at 1 January 2022	**37,972**	**126**	**2,572**	**11,565**	**52,235**
Total comprehensive income					
Profit for the year	-	-	-	6,105	**6,105**
Balance as at 31 December 2022	**37,972**	**126**	**2,572**	**17,670**	**58,340**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 20 March 2023

The notes set out on pages 10 to 41 form an integral part of the separate financial statements.

NOTE 1. Reporting entity

A. Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry. Georgia's economy was also affected by the mentioned events and is subject to future uncertainties in economy as described; on the other hand, single digit growth of Georgian economy is forecasted in 2023, driven by higher export and tourism revenues and strong private consumption.

The separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

B. Organisation and operations

JSC Insurance Company GPI Holding (the "Company" or "GPIH") was incorporated in Georgia in 2001. The Company's registered office is in 67 M. Kostava, Tbilisi, Georgia. The Company is licensed to provide life and non-life insurance services in Georgia. However, Insurance Company GPI Holding JSC only offers insurance services in health, property and other non-life segments. The Company is also managing private pension fund in Georgia.

As at 31 December 2022 and as at the date these separate financial statements were authorised for issue, 90% of the ordinary shares are held by ATBIH GmbH and 10% are held by Soft International Georgia LLC.

As at 31 December 2022, 31 December 2021 and the date these separate financial statements were authorised for issue, the Company's intermediate parent is VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna ("VIG"). The Company is ultimately controlled by Wiener Stadtische Wechselseitiger Versicherungsverein – Vermogensverwaltung – Vienna Insurance Group, Vienna.

NOTE 2. Basis of accounting

A. Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs Standards").

The Company has applied the temporary exemption from IFRS 9 *Financial Instruments* as permitted by IFRS 4 *Insurance Contracts* and has not previously adopted any version of IFRS 9, including the requirements from the presentation of gains and losses on financial liabilities designated as at FVTPL, for annual periods beginning before 1 January 2018. Company plans to have a single date of initial application of 1 January 2023 for whole IFRS 9.

The Company does not prepare consolidated financial statements based on IFRS 10 *Consolidated Financial Statements* as the Company itself is a partially-owned subsidiary of another entity and its other owners have been informed about, and do not object to, the Company not preparing consolidated financial statements; the Company's debt or equity instruments are not traded in a public market; the Company did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; the intermediate parent VIG produces consolidated financial statements available for public use that comply with EU IFRSs Standards. The consolidated financial statements of VIG can be obtained from the VIG Group web site www.vig.com.

NOTE 3. Functional and Presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these separate financial statements are presented.

All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

NOTE 4. Use of estimates and judgements

The preparation of separate financial statements in conformity with IFRSs Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the separate financial statements is assessment of whether the Company's activities are predominantly connected with insurance – description of the assessment is presented below in this Note.

Assessment of whether the Company's activities are predominantly connected with insurance

The temporary exemption from IFRS 9 applies for those entities whose activities are predominantly connected with insurance. Eligibility is assessed at the reporting entity level and is therefore applied at the reporting entity level – i.e. it applies to all financial assets and financial liabilities held by the reporting entity.

The Company applied temporary exemption from IFRS 9 as:

- the Company has not previously applied any version of IFRS 9; and
- Company's activities as a whole are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016, i.e. as at 31 December 2015.

Under IFRS 4, an insurer's activities are predominantly connected with insurance if, and only if:

- (a) the carrying amount of its liabilities arising from contracts within the scope of IFRS 4, which includes any deposit components or embedded derivatives unbundled from insurance contracts, is significant compared to the total carrying amount of all its liabilities; and

– (b) the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
  - (i) greater than 90 per cent; or
  - (ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance.

Under IFRS 4, liabilities connected with insurance comprise:

(a) Liabilities arising from contracts within the scope of IFRS 4;

(b) Non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39; and (c) Liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital, liabilities for salaries and other employment benefits for the employees of the insurance activities.

As at 31 December 2015 liabilities connected with insurance comprised:

	31 December 2015 GEL'000
Liabilities connected with insurance within the scope of IFRS 4	***45,871***
Insurance provisions	45,871
Liabilities connected with insurance not within the scope of IFRS 4	***22,991***
Trade and other payables	10,022
Deferred tax liabilities	197
Reinsurance payables	12,772
Total carrying amount of liabilities connected with insurance	**68,862**
Total carrying amount of liabilities	**74,104**
Percentage of the total carrying amount of Company's liabilities connected with insurance relative to the total carrying amount of all its liabilities	**93%**

The Company is not engaged in any significant activities unconnected with the insurance from which it may earn income and incur expenses. The Company is subject to all regulatory requirements related to insurers and considers insurance risk as its main business risk. In addition, the Company did not identify any quantitative or qualitative factors (or both), including publicly available information, that could indicate that regulatory bodies or other users of the company's separate financial statements apply other industry classification to the Company.

Based on the assessment performed the Company concludes that as at 31 December 2015 the Company's activities are predominantly connected with insurance. Since 31 December 2015 there were no significant changes in the Company's operations, thus the Company did not perform reassessment of whether the company's activities are predominantly connected with insurance on any subsequent annual reporting date.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended as at 31 December 2022 is included in the following notes:

- Note 19 (E (a)) – Financial risks;
- Note 9 – Insurance contract provisions; and
- Note 18 (C) – Concentration of insurance risk.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values for financial assets and liabilities and for land and building class of property and equipment.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

NOTE 5. Investment and other income

	2022 GEL'000	2021 GEL'000
Interest income on loans receivable	404	390
Income from penalties	225	108
Net foreign exchange (loss)/gain	(21)	624
Other	696	967
	1,304	**2,089**

NOTE 6. Other acquisition expenses

	2022 GEL'000	2021 GEL'000
Wages and salaries	13,347	11,777
Marketing expenses	3,738	2,879
Depreciation	644	661
Office expenses	557	502
Business trips	51	2
Others	231	106
	18,568	**15,927**

NOTE 7.Other operating and administrative expenses

	2022 GEL'000	2021 GEL'000
Wages and salaries	4,451	4,207
Regulator fee	1,303	1,193
Depreciation and amortization	344	520
Bank fees	257	198
Impairment /(reversal of impairment) of insurance receivables	247	(207)
Write-off of prepayments	-	595
Other	958	931
	7,560	**7,437**

The other operating and administrative expenses and other acquisition expenses include fees accrued for the audit services of about GEL 157 thousand (2021: GEL 147 thousand).

NOTE 8. Income taxes

The Company's applicable tax rate is the income tax rate of 15% (2021: 15%).

	2022 GEL'000	2021 GEL'000
Current income tax expense	820	619
Origination and reversal of temporary differences	104	(607)
Total income tax expenses	**924**	**12**

Reconciliation of effective tax rate:	2022 GEL'000	2021 GEL'000
Profit before income tax	7,029	77
Income tax at the applicable tax rate	1,055	12
Net non-taxable income	(131)	-
	924	**12**

Movement in temporary differences during the year:

GEL'000	1 January 2022	Recognized in profit or loss	31 December 2022
Deferred acquisition costs	(841)	(125)	(966)
Provision for outstanding claims	(443)	(21)	(464)
Property and equipment and intangible assets	(53)	-	(53)
Other assets	-	349	349
Trade and other payables	516	(308)	209
	(821)	**(104)**	**(926)**

GEL'000	1 January 2021	Recognized in profit or loss	31 December 2021
Deferred acquisition costs	(1,268)	427	(841)
Provision for outstanding claims	(270)	(173)	(443)
Property and equipment and intangible assets	(38)	(15)	(53)
Lease liability	51	(51)	-
Trade and other payables	97	419	516
	(1,428)	**607**	**(821)**

On 13 May 2016 the Parliament of Georgia passed a 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. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law was intended to become effective from 1 January 2019.

On 28 December 2018, the law was further amended. The Financial Institution's transition to the new taxation system becomes effective from 1 January 2023, instead of 1 January 2019. On 16 December 2022 , the law was further amended. The Financial Institution's transition to the new taxation system becomes effective from 1 January 2024, instead of 1 January 2023.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2024 and hence, no deferred income tax assets and liabilities will arise thereon.

The deferred tax liability of GEL 926 thousand is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2024.

NOTE 9. Insurance contract provisions

	31 December 2022 GEL'000	31 December 2021 GEL'000
Non-life contracts:		
Provision for unearned premiums	67,117	57,570
Provision for reported but not settled claims (RBNS)	12,247	15,770
Provision for incurred but not reported claims (IBNR)	2,233	1,583
	81,597	**74,923**

A. Movement in provision for outstanding claims (gross)

	2022 GEL'000	2021 GEL'000
Balance at 1 January	17,353	20,743
Expected cost of current year claims (note 18 (D))	110,010	100,315
Change in estimates in respect of prior year claims	(3,509)	(4,360)
Gross benefits and claims paid	(109,374)	(99,345)
Balance at 31 December	**14,480**	**17,353**

B. Movement in provision for unearned premiums (gross)

	2022 GEL'000	2021 GEL'000
Balance at January 1	57,570	51,891
Premium written in the year	162,337	135,966
Premium earned during the year	(152,790)	(130,287)
Balance at December 31	**67,117**	**57,570**

C. The methods for determining various types of insurance liabilities

(i) Unearned premium provision

The provision for unearned premium is based on written premiums and is calculated on a proportional basis in respect of the unexpired term of the policy for which the premium has been received.

(ii) Provision for outstanding claims

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date, but not yet settled (RBNS) and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR).

RBNS is created for known outstanding claims that include an appropriate provision for settlement and handling expenses. This provision is based mainly on an individual valuation for each claim according to the opinion obtained from the insured, legal advisors and the Company's experts that handle the claims.

IBNR claims reserve is calculated by the Company's actuaries. The ultimate cost of these claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson, or in some cases, the expected loss ratio method is applied in order to ensure reasonable estimations when the statistical method fails. The actuaries carry out estimations using data regarding claims payments, numbers of claims reported and case-reserves.

(iii) The assumptions and models used for determining the provisions

For the purpose of valuing outstanding claims, or supplementing the claims departments' per-claim case reserves for IBNR, the actuarial models detailed below have been used in conjunction with various assumptions:

- Chain ladder: this method is based on the development of historical claims (development of payments and/or development of amount of claims, development of the number of claims, etc.), in order to evaluate the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period since the event occurred or the policy is written, when there is enough information from the existing claims in order to evaluate the total anticipated claims.
- Bornhuetter-Ferguson (or modified version thereof): this method combines early estimates known in the Company or class of business, and additional estimates based on the claims themselves. The early estimates utilize premiums and the loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weights the two estimates while a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business or one with insufficient historical information;
- The average payment per claim: at times, as in the Bornhuetter-Ferguson method, when the claims experience is insufficient, the historical average method is utilized. In this method the provision is calculated based on the forecast of the number of claims (chain ladder method) and historical average claim size.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future with changes based on trends in claim frequency and severity due to changes in regulations, policy conditions, customer mix, etc. All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute.

Liability adequacy tests are carried out by the Company as follows:

(a) For most of the liability (e.g. in respect of motor and health business) for outstanding claims net of recoverable reinsurance, subrogation and salvage, an actuarial analysis is carried out in order to determine that the recorded liability (net of relevant assets) is adequate based on the current best estimates of future claims development. If the liabilities are not adequate they are increased through profit or loss.

(b) For the liability for unexpired risks (the unearned premium reserve net of DAC) an actuarial estimate is carried out of the expected future loss ratio in respect of unexpired risks on in-force contracts. If the expected loss ratio implies that the unearned premium provision net of DAC is inadequate, the DAC is reduced, and if necessary the unearned premium reserve is increased, until it is adequate.

The liability adequacy test reveal shortfall as at 31 December 2022 which was recognized as reduction of deferred acquisition costs by GEL 1,297 thousand (2021: GEL 1,297 thousand).

NOTE 10. Reinsurance assets

	31 December 2022 GEL'000	31 December 2021 GEL'000
Provision for unearned premiums – reinsurance	12,333	9,290
Provision for outstanding claims – reinsurance	9,774	12,830
	22,107	**22,120**

Movement in provision for unearned premiums – reinsurance	**2022 GEL'000**	**2021 GEL'000**
Balance at 1 January	**9,290**	**7,553**
Written premiums ceded to reinsurers during the year	90,603	74,727
Premiums ceded to reinsurers incurred during the year	(87,560)	(72,990)
Balance at 31 December	**12,333**	**9,290**

Movement in provision for outstanding claims – reinsurance	**2022 GEL'000**	**2021 GEL'000**
Balance at 1 January	**12,830**	**9,171**
Reinsurers' share in claims incurred in the current accident year	54,330	49,141
Change in estimates in respect of prior year reinsurers' share in claims	2,185	561
Reinsurers' share of gross benefits and claims paid	(59,571)	(46,043)
Balance at 31 December	**9,774**	**12,830**

NOTE 11. Property and equipment

GEL'000	**Land and buildings**	**Computers and related equipment**	**Motor vehicles**	**Office furniture and equipment**	**Right of use**	**Total**
Cost						
1 January 2022	3,031	1,702	127	320	1,316	6,496
Additions	-	249	97	38	270	654
Disposals/write-off	(796)	(6)	(44)	-	(713)	(1,559)
31 December 2022	**2,235**	**1,945**	**180**	**358**	**873**	**5,591**
Accumulated depreciation						
1 January 2022	133	1,114	99	299	968	2,613
Charge for the year	51	221	23	55	273	623
Disposals/write-off	(31)	(6)	(35)	-	(713)	(785)
31 December 2022	**153**	**1,329**	**87**	**354**	**528**	**2,451**
Net book value						
31 December 2022	**2,082**	**616**	**93**	**4**	**345**	**3,140**
Cost						
1 January 2021	3,031	1,514	127	301	899	5,872
Additions	-	197	-	31	417	645
Disposals/write-off	-	(1,499)	(177)	(908)	(146)	(2,730)
31 December 2021	**3,031**	**1,514**	**127**	**301**	**899**	**5,872**
Accumulated depreciation						
1 January 2021	67	829	66	286	649	1,897
Charge for the year	66	293	33	15	319	726
Disposals/write-off	-	(8)	-	(2)	-	(10)
31 December 2021	**133**	**1,114**	**99**	**299**	**968**	**2,613**
Net book value						
31 December 2021	**2,898**	**588**	**28**	**21**	**348**	**3,883**

As at 31 December 2020 the revaluation of land and buildings was made by the independent valuator. Total revaluation reserve amounted to GEL 2,572 thousand. The fair value was determined based on announced asking prices of similar properties in the similar location and physical condition. The significant unobservable inputs related to the differences in the characteristics of the lands, such as size, location, access to the property and discount achieved through negotiation, for which the appraiser applied 5% to 15% adjustments to observed asking prices. The range for one square meter varied from USD 1,100 to USD 1,400. In case of 10% increase in price for square meter the FV of land and buildings will increase by GEL 296 thousand.

The fair value is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments to observable inputs to the valuation technique used.

The management team regularly reviews significant unobservable inputs and valuation adjustments. As a result of such review performed by the management as at 31 December 2022 and 31 December 2021 no significant indicators were observed on the market, that would materially change the fair value of land and buildings as at 31 December 2022 and as at 31 December 2021.

Carrying amount of land and buildings had no revaluations taken place as at 31 December 2022 would amount to GEL 320 thousand (2021: GEL 490 thousand).

NOTE 12. Investments in subsidiaries

	Activity	31 December 2022 GEL'000	Ownership %	31 December 2021 GEL'000	Ownership %
Medical Concern Curatio JSC	Medical services	680	100	680	100
Global Assistance Georgia JSC	Automotive	500	50	500	50
		1,180		**1,180**	

In October 2021 The company together with its shareholder ATBIH Gmbh founded new subsidiary with ownership of shares 50% each.

The management has determined that the Company controls the Global Assistance Georgia JSC due to voting powers and significant presence in management.

Principal place of business and country of incorporation of Medical Concern Curatio JSC and Global Assistance Georgia JSC is Georgia.

NOTE 13. Other assets

	31 December 2022 GEL'000	31 December 2021 GEL'000
Receivables from subrogation	24,961	20,128
Reinsurance receivable	5,783	4,183
Receivable from sale of investment property	2,814	3,226
Other advances to subsidiaries and other counterparties	3,236	3,028
Purchased bonds	1,626	1,864
Advances to subsidiaries and other counterparties for medical services	197	193
Others	555	385
	39,172	**33,007**
Allowance for impairment	(15,765)	(14,784)
	23,407	**18,223**

	2022 GEL'000	2021 GEL'000
Balance at the beginning of the period	14,784	8,780
Charge for the period *	981	6,004
Balance at the end of the period	**15,765**	**14,784**

* Charge for the allowance for impairment for receivables from subrogation is included in claims and benefits paid.

NOTE 14. Cash and cash equivalents

	31 December 2022 GEL'000	31 December 2021 GEL'000
Cash on hand	-	6
Cash in banks	5,557	6,390
Cash and cash equivalents in the separate statement of financial position and in the separate statement of cash flows	**5,557**	**6,396**

NOTE 15. Ordinary shares

The authorized and paid-in share capital of the Company is specified below. Each share entitles the holder to one vote in the shareholders meetings of the Company.

Authorized, issued and paid-in capital	**31 December 2022**		**31 December 2021**	
	Number of shares	**Par Value GEL '000**	**Number of shares**	**Par Value GEL '000**
Ordinary shares	1,500	25.31	1,500	25.31

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

During 2021, the Company declared Dividends of GEL 2,342 thousand to its shareholders which were converted into share capital. During 2021 GEL 3,600 thousand was invested into the ordinary shares of the company by shareholders.

During 2022 the Company has not declared dividends.

NOTE 16. Investment contract liabilities

	31 December 2022	31 December 2021
Number of registered participants		
• In the voluntary funds	12,861	11,449
Total assets under management (GEL'000)	**2,025**	**2,346**

Participants have a right to call their investments on demand. Participants receive income based on the average yield of term deposits of the Company.

NOTE 17. Trade and other payables

	31 December 2022 GEL'000	31 December 2021 GEL'000
Insurance premium paid in advance	4,440	4,327
Employee liabilities	2,847	2,434
Commission payable	1,384	1,078
Lease liabilities	460	457
Other liabilities	1,047	1,253
	10,178	**9,549**

NOTE 18. Insurance risk management

A. Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from individuals or organisations that are directly subject to the risk. Such risks may relate to property, liability, accident, health, cargo or other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Risks under non-life insurance policies usually cover twelve month duration. For general insurance contracts the most significant risks arise from changes in the relevant legal environment, changes in behaviour of policyholders, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from epidemics, natural disasters and increases in health care costs.

The Company also has exposure to market risk through its insurance activities. The Company manages its insurance risk through the use of established statistical techniques, reinsurance of risk concentrations, underwriting limits, approval procedures for transactions, pricing guidelines and monitoring of emerging issues.

(i) Underwriting strategy

The Company's underwriting strategy seeks diversity so that the portfolio at all times includes several classes of non-correlating risks and that each class of risk, in turn, is spread across a large number of policies. Management believes that this approach reduces the variability of the outcome.

The underwriting strategy is set out in the business plan that stipulates the classes and subclasses of business to be written. The strategy is implemented through underwriting guidelines that determine detailed underwriting rules for each type of product. The guidelines contain insurance concepts and procedures, descriptions of inherent risk, terms and conditions, rights and obligations, documentation requirements, template agreement/policy examples, rationale of applicable tariffs and factors that would affect the applicable tariff. The tariff calculations are based on probability and variation.

Adherence to the underwriting guidelines is monitored by management on an on-going basis.

Strict claim review policies to assess all new and on-going claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and processes put in place to reduce claims. Where appropriate, the Company further enforces a policy of actively managing and promoting pursuing 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.

(ii) Reinsurance strategy

In order to reduce the insurance risks the Company utilises a reinsurance program. The majority of reinsurance business ceded is placed on a proportional and quota share/excess of loss basis with retention limits varying by product line (for all significant risks in all business lines the Company writes business only with facultative cover with no significant retention). Due to increasing share of medical portfolio together with respective claims, during 2021 Company has reinsured Medical Line of business, which was not reinsured in prior years.

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the separate statement of financial position as reinsurance assets. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations under such reinsurance agreements. Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At the end of each reporting period, management performs an assessment of creditworthiness of reinsurers to update reinsurance purchase strategy and ascertaining suitable allowance for impairment of reinsurance assets.

B. Terms and conditions of insurance contracts and nature of risks covered

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

(i) Medical insurance

Product features

The largest part of the Company's insurance portfolio relates to medical insurance. These contracts pay benefits for medical treatment and hospital expenses. This make up approximately 42 % of the total insurance business respectively in terms of net earned premiums of the Company. The portfolio consists predominantly of collective corporate policies as at 31 December 2022.

Management of risk

Health insurance cover is subject to the primary peril of the need for a medical treatment. The Company manages its risks through writing predominantly corporate policies and through the use of medical screening so that pricing considers current health conditions and reinsurance processes.

(ii) Motor insurance

Product features

Motor insurance includes both fully comprehensive insurance ("Casco") and motor third party liability insurance ("MTPL"). Casco and MTPL insurances make up approximately 41% of the total insurance business respectively in terms of net earned premiums of the Company. Under Casco contracts, corporate entities and individuals are reimbursed for any loss of, or damage caused to their vehicles. MTPL contracts provide indemnity cover to the owner of the motor vehicle against compensation payable to third parties for property damage, death or personal injury. Motor insurance therefore includes both short and longer tail coverage. Claims that are typically settled quickly are those that indemnify the policyholder against motor physical damage or loss. Claims that take longer to finalise, and are more difficult to estimate, relate to bodily injury claims.

Management of risk

In general, motor claims reporting lags are minor, and claim complexity is relatively low. Overall the claims liabilities for this line of business create a moderate estimation risk. The Company monitors and reacts to trends in repair costs, injury awards and the frequency of theft and accident claims.

The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Company's proprietary accident statistics database.

(iii) Property insurance

Product features

The Company writes property insurance. This includes both private property insurance and industrial property insurance. Property insurance indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property. Property insurances make up approximately 3% of the total insurance business respectively in terms of net earned premiums of the Company.

The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. The claim will thus be notified promptly and can be settled without delay. Property business is therefore classified as short-tailed.

Management of risk

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

These risks are managed primarily through the pricing and reinsurance processes.

C. Concentrations of insurance risk

A key aspect of the insurance risk faced by the Company is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts with similar risk features, and relate to circumstances where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it may arise from the accumulation of risks within a number of individual classes or contract tranches.

The Company's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its business. The Company assesses the costs and benefits associated with the reinsurance programme on an on-going basis.

The tables below set out the concentration of Insurance contract provisions (excluding liabilities for unexpired risk and for outstanding claims) by type of contract:

31 December 2022

	Gross			**Reinsurers' share**			**Net**		
	Unearned premium provision GEL'000	**Out-standing claims GEL'000**	**Total GEL'000**	**Unearned premium provision GEL'000**	**Out-standing claims GEL'000**	**Total GEL'000**	**Unearned premium provision GEL'000**	**Out-standing claims GEL'000**	**Total GEL'000**
Medical	36,333	4,853	41,186	25	3,805	3,830	36,308	1,048	37,356
Property	6,911	2,451	9,362	5,459	1,981	7,440	1,452	470	1,922
Motor	14,128	1,801	15,929	183	420	603	13,945	1,381	15,326
Credit Insurance	557	791	1,348	264	100	364	293	691	984
Marine & cargo	829	648	1477	377	403	780	452	245	697
Agro	229	1	230	-	-	-	229	1	230
Other	8,130	3,935	12,065	6,025	3,065	9,090	2,105	870	2,975
Total	**67,117**	**14,480**	**81, 597**	**12,333**	**9,774**	**22,107**	**54,784**	**4,706**	**59,490**

31 December 2021

	Gross			Reinsurers' share			Net		
	Unearned premium provision	**Out-standing claims**	**Total**	**Unearned premium provision**	**Out-standing claims**	**Total**	**Unearned premium provision**	**Out-standing claims**	**Total**
	GEL'000	**GEL'000**	**GEL'000**	**GEL'000**	**GEL'000**	**GEL'000**	**GEL'000**	**GEL'000**	**GEL'000**
Medical	31,954	5,463	37,417	31	4,661	4,692	31,923	802	32,725
Property	6,048	5,394	11,442	4,773	4,403	9,176	1,275	991	2,266
Motor	12,662	1,975	14,637	117	420	537	12,545	1,555	14,100
Credit Insurance	533	787	1,320	263	123	386	270	664	934
Marine & cargo	537	912	1,449	132	611	743	405	301	706
Agro	209	41	250	-	19	19	209	22	231
Other	5,627	2,781	8,408	3,974	2,593	6,567	1,653	188	1,841
Total	**57,570**	**17,353**	**74,923**	**9,290**	**12,830**	**22,120**	**48,280**	**4,523**	**52,803**

Key assumptions in estimating outstanding claims

The principal assumptions underlying the estimates relate to how the Company's future claims development experience will differ, if at all, from the past claims development experience. This includes, for each accident period, assumptions in respect of average claim costs, claim handling costs, claim inflation factors, number of claims and delays between the claim events, claim reporting and claim settlement. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other assumptions include variation in interest rates and changes in foreign currency rates.

Sensitivities

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

D. Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Company. The table compares the claims paid on an accident year basis with the provisions established for these claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the separate statement of financial position and the estimate of cumulative claims.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these separate financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2022 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate.

Analysis of claims development (gross) – Total

	2018	2019	2020	2021	2022	Total
Estimate of cumulative claims						
Accident year	78,100	66,939	86,714	100,317	110,010	**442,080**
One year later	76,802	65,482	82,343	95,939	-	**320,566**
Two years later	76,792	65,490	82,802		-	**225,084**
Three years later	76,789	66,069		-	-	**142,858**
Four years later	76,800		-	-	-	**76,800**
Current estimate of incurred claims	76,800	66,069	82,802	95,939	110,010	**431,620**
Cumulative payments to date	74,347	66,065	82,226	94,677	99,826	**417,140**
Gross outstanding claims liabilities	**2,453**	**4**	**576**	**1,262**	**10,185**	**14,480**

NOTE 19. Financial instruments and risk management

A. Accounting classifications and fair values

Management believes that the fair value of the Company’s financial assets and financial liabilities approximates their carrying amounts due to short maturities of most of the aforementioned instruments.

B. Governance framework

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

The Supervisory Board of the Company has overall responsibility for the oversight of the risk management framework. Management of the Company is responsible for the management of key risks, designing and implementing risk management and control procedures as well as approving large exposures.

Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Company’s activities.

C. Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks of natural disasters. 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 insurance companies to meet unforeseen liabilities as these arise.

D. Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risks that the Company faces due to the nature of its investments and liabilities are currency risk, credit risk, interest rate risk and insurance risk. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The Company’s ALM also forms an integral part of the insurance risk management policy, to ensure in each period that sufficient cash flow is available to meet liabilities arising from insurance contracts.

E. Financial risks

The major risks faced by the Company from its use of financial instruments are those related to market risk (which includes interest rate and currency risks), credit risk and liquidity risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segment (i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Supervisory Board and are subject to regular reviews. Reinsurance counterparties are approved by the Company's senior management. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the separate statement of financial position.

	31 December 2022 GEL'000	**31 December 2021 GEL'000**
Bank deposits	37,668	36,773
Loans receivable	3,165	2,980
Reinsurers' share of insurance contract provisions	22,107	22,120
Reinsurance receivables	5,783	4,183
Insurance receivables	54,529	50,213
Receivables from subrogation	9,196	5,344
Receivable from sale of investment property	2,814	3,226
Purchased bonds	1,626	1,864
Cash and cash equivalents	5,557	6,390
Total credit risk exposure	**142,445**	**133,093**

The cash and cash equivalents and bank deposits are mainly held with Georgian banks with short term issuer default rating of B, based on Fitch Rating. The Company does not expect any counterparty to fail to meet its obligations.

Loans issued of GEL 3,165 thousand (31 December 2021: GEL 2,980 thousand) are neither past due not impaired as at 31 December 2022 and 31 December 2021.

Purchased bonds of GEL 2,004 thousand (31 December 2021: 1,864) are neither past due not impaired as at 31 December 2022. The bonds are purchased from Georgian bank with long term issuer default rating of BB-based on Fitch Rating

The Company reinsures certain risks with reinsurance companies. The selection of reinsurance companies is based on criteria related to solvency and reliability and, to a lesser degree, diversification (the spreading of risk across counterparties). Reinsurance assets and reinsurance receivables are not past due or impaired.

As at 31 December 2022 the Company has placements in three large banks (31 December 2021: four large banks), whose balances exceed 10% of total equity. The gross value of these balances as at 31 December 2022 is GEL 19,752 thousand (31 December 2021: GEL 22,922 thousand).

The aging of insurance receivables at the reporting date was:

GEL'000	**Gross 2022**	**Impairment 2022**	**Gross 2021**	**Impairment 2021**
Not past due	54,086	-	48,642	-
Past due 0-90 days	-	-	182	-
Past due 91-180 days	216	(21)	1,096	(109)
Past due 181-270 days	269	(81)	276	(83)
Past due 271-365 days	121	(61)	113	(56)
Past due more than one year	5,732	(5,732)	5,975	(5,823)
	60,424	**(5,895)**	**56,284**	**(6,071)**

Analysis of movements in the allowance for insurance receivables:

'000 GEL	**2022**	**2021**
Balance at the beginning of the year	**6,071**	6,474
The effect of foreign exchange rates	(423)	(196)
Net charge/(reversal) for the year	247	(207)
Balance at the end of the year	**5,895**	**6,071**

Net impairment charge/(reversal) of impairment of insurance receivables is included in other operating and administrative expenses.

Gross insurance receivables from major lines of businesses: health, motor and property contracts as at 31 December 2022 amounted to GEL 38,325 thousand, GEL 10,131 thousand and GEL 4,940 thousand, respectively (31 December 2021 GEL 35,349 thousand, GEL 9,643 thousand and GEL 5,675 thousand, respectively).

The Company is not subject to significant credit risk on receivables arising out of direct insurance operations as policies are cancelled and the unearned premium reserve relating to the policy is similarly cancelled when there is objective evidence that the policyholder is not willing or able to continue paying policy premiums.

Management believes that the unimpaired amounts that are past due by up to 90 days are still collectible in full, based on historic payment behaviour.

The Company routinely assesses the recoverability of its subrogation receivables and, as a consequence, believes that their credit risk exposure is limited. Subrogation receivables are carried at either the amount estimated to be recovered or at the amount, agreed between the Company and the third party, less an estimate made for doubtful subrogation receivables, based on a review of all outstanding amounts on a quarterly basis. A valuation allowance is provided for known and anticipated credit losses, as determined by management, on a collective basis. In case of default, the Company pursues legal actions against the third parties.

The following table shows year of origination and subsequent impairment of subrogation receivables as at 31 December 2022 and 2021:

GEL'000	Gross 2022	Impairment 2022	Gross 2021	Impairment 2021
Subrogation receivable originated in:				
2022	6,553	(1,961)		
2021	4,280	(2,628)	5,583	(3,019)
2020	2,238	(1,408)	2,360	(1,370)
2019	1,803	(1,654)	1,884	(1,067)
before 2019	10,087	(8,114)	10,301	(9,328)
	24,961	**(15,765)**	**20,128**	**(14,784)**

The receivable from the sale of investment property is fully collateralized with the sold property, so that in the event of non-payment the Company will receive the sold investment property back.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- Liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contracts obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

Majority of financial assets and liabilities is due within one year after the reporting date.

Maturity profiles

The Company uses maturity tables in managing its liquidity risk. All of the Company's financial liabilities are contractually due to be settled during the one year period after the reporting date.

Management estimates that the timing of cash outflows from Insurance contract provisions does not exceed one year.

All of the Company's assets and liabilities, except for property and equipment, intangible assets and investment property, are expected to be recovered or settled during the twelve months after the reporting date.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

To mitigate the Company's exposure to market risk policies and procedures are in place to set and monitor asset allocation and portfolio limit structures.

(i) Currency risk

Management is responsible for continuously monitoring the development of exchange rates and foreign currency markets. The Company aims to close currency positions and ensures that an open currency position remains within the limits at all times.

The following table shows the foreign currency structure of monetary assets and liabilities and insurance contract assets and liabilities at 31 December 2022 and 31 December 2021:

	31 December 2022, USD GEL'000	31 December 2022, EUR GEL'000	31 December 2021, USD GEL'000	31 December 2021, EUR GEL'000
Reinsurers' share in outstanding claims	3,103	306	5,099	580
Reinsurance receivables	1,402	4,381	-	4,183
Insurance receivables	13,567	1,318	16,975	650
Prepayments and other receivables	4,446	-	5,089	-
Cash and cash equivalents	235	147	55	2,761
Total assets	**18,307**	**4,834**	**27,218**	**8,174**
Liabilities				
Outstanding claims	4,920	445	8,020	623
Insurance and reinsurance payables	-	8,845	2,925	7,521
Trade and other payables	2,162	82	1,117	27
Total liabilities	**4,920**	**9,372**	**12,062**	**8,171**
Net position as at 31 December	**13,387**	**(4,538)**	**15,156**	**(3)**

A reasonably possible strengthening (weakening) of GEL, as indicated below, against USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss after tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant:

	31 December 2022 GEL'000	31 December 2021 GEL'000
10% appreciation of USD against GEL	1,138	1,288
10% depreciation of USD against GEL	(1,138)	(1,288)
10% appreciation of EUR against GEL	(386)	-
10% depreciation of EUR against GEL	386	-

(ii) Interest rate risk

Interest rate risk is the risk that fluctuations in market interest rates will affect adversely the financial position and the results of operations of the Company.

The Company does not have floating rate interest bearing instruments. Besides, the Company's interest bearing instruments have relatively short maturity. Therefore, management believes that the Company does not have significant exposure to interest rate risk.

F. Capital management

(a) Capital management objectives, policies and approach

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.

It is in the Company's interest to maintain adequate capital resources at all times and to fulfill respective minimum regulatory capital requirements. The Company has traditionally had very good capital resources. Maintaining this good capital base in the future is also important to the Company, both to allow to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

As part of the process in monitoring and managing its capital, the Company refers to its Asset Management Plan (“AMP"), which is focused on enabling the Company to constantly maintain a minimum level of funds, placed in top Georgian banks. Control of the structure of assets are carried out by means of monthly reports to the shareholder, containing the relevant calculations to be verified by Chief Financial Officer of the Company.

(b) Regulatory requirements

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

The company makes certain adjustments to the IFRSs Standards equity in the separate statement of financial position in order to arrive to the ISSSG prescribed capital.

The Company manages its capital requirements by preventing shortfalls between reported and required capital levels on a regular basis. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or inject further capital.

The Company was in compliance with the externally imposed capital requirements from ISSSG at the end of the reporting period and no changes were made to its objectives, policies and processes from the previous year for managing capital.

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

- The Regulatory Capital should be at least either RSM or GEL 7,200 throughout the period from 31 December 2021.

The Regulatory Capital is determined based on the IFRSs Standards equity, adjusted for, for example, investments in subsidiaries and associates, unsecured loans and borrowings, etc. as prescribed by the ISSSG directive №16.

As at 31 December 2022 , the Company was in compliance with the level of Regulatory Capital in excess of RSM.

NOTE 20. Related party transactions and balances

Name	Relationship	Transaction 2022 GEL’000	Outstanding balance 31 December 2022 GEL’000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		(7,609)	684
Loans given*		-	2,371
Interest income		338	-
International insurance company Irao JSC	Fellow subsidiary		
Insurance software		-	171
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurance payable		-	(139)
Reinsurers’ share of gross premiums		(11,354)	-
Reinsurers’ share of gross benefits and claims paid		7,094	-
Commission income		3,722	-

*The loans given to related parties above are denominated in GEL and bear an interest rate of 10-12%. maturing in 2023.

Name	Relationship	Transaction 2021 GEL'000	Outstanding balance 31 December 2021 GEL'000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		(6,456)	-
Loans given**		-	2,980
Interest income		380	-
Soft International Georgia LLC	Shareholder		
Other receivables		300	-
International insurance company Irao JSC	Fellow subsidiary		
Insurance software		272	-
Forward agreement***		-	171
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurance payable		-	(1,896)
Reinsurers' share of gross premiums		(6,452)	-
Reinsurance share of gross benefits and claims paid		2,323	-
Commission income		1,725	-

** The loans given to related parties above are denominated in GEL and bear an interest rate of 10-13% maturing in 2023.

*** The forward agreement was signed with International Insurance Company IRAO JSC, on 3 January 2018, to hedge the Company's EUR OCP with nominal value of EUR 900 thousand, with the maturity date of 31 December 2018. The balances at the end of reporting date represent the unpaid portions in the above regards.

Compensation of key management personnel

The remuneration of 5 directors of the Company for the years ended December 31 was as follows:

	2022 GEL'000	2021 GEL'000
Payroll	1,281	1,716
Bonuses	753	867
Other benefits	5	5
Total key management personnel compensation	**2,039**	**2,588**

NOTE 21. Contingencies and commitments

A. Legal proceedings

In the normal course of business the Company is a party to legal actions, mainly related to claims or subrogation payments. Company is involved in litigation in connection with reimbursement of damages incurred by counterparty during engineering works performed for the construction of hydro power plant. Claimant demands from the Company reimbursement of damages under insurance policy. Legal case amount is determined to be GEL 2,438 thousand, out of which the Company has recognised GEL 256 thousand as outstanding claim as the management considers only this amount to be reimbursable by the policy owned by counterparty. 94% of the claim is reinsured.

There are no other major legal disputes as of the reporting date which could have a material impact on the Company's financial position.

B. Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

NOTE 22. Basis of measurement

The separate financial statements are prepared on the historical cost basis except for Property and equipment, land and building class which is carried at revalued amount.

NOTE 23. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

A. Investments in subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in subsidiaries are accounted at cost in the separate financial statements from the date that control effectively commences until the date that control effectively ceases.

Investments in subsidiaries are accounted at cost less impairment losses.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest, impairment and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

C. Insurance contracts

(i) Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the “policyholder”) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the “insured event”) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Company to pay significant claims. Once a contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expire. Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant are classified as financial instruments.

Financial guarantee contracts are accounted for as insurance contracts.

(ii) Recognition and measurement of contracts

Premiums

Gross premiums written comprise premiums on contracts entered into during the year, when they relate in whole or in part to the current period. Premiums are disclosed gross of commission payable to intermediaries. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period using the daily pro-rata method. Outward reinsurance premiums are recognised as an expense in accordance with the daily pro-rata method. The portion of outward reinsurance premiums not recognised as an expense is treated as a prepayment.

Policy cancellations

Policies are cancelled if there is objective evidence that the policyholder is not willing or able to continue paying policy premiums. Cancellations therefore affect mostly those policies where policy premiums are paid in instalments over the term of the policy.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method.

Claims

Net benefits and claims comprise claims paid during the financial year, net of subrogation recoveries and together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but not settled at the separate statement of financial position date, whether reported or not.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

Anticipated reinsurance recoveries are recognised separately as assets. Reinsurance recoveries are assessed in a manner similar to the assessment of claims outstanding.

Adjustments to the amounts of claims provisions established in prior years are reflected in the separate financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(iii) Reinsurance

The Company cedes reinsurance in the normal course of business with retention limits varying by line of business. The reinsurers' shares in insurance liabilities and outstanding claims are presented separately in the separate statement of financial position, net of an allowance for credit losses, according to the estimates of management.

Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in profit or loss and the separate statement of financial position on a gross basis.

(iv) Deferred acquisition costs (DAC)

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

Direct and indirect costs above constitute sales commissions paid to employees, fee and commission costs paid or payable to agent and other counterparties for the conclusion and renewal of insurance agreements, etc.

Subsequent to initial recognition, DAC for general insurance and health products are amortised over the period in which the related revenues are earned.

(v) Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets for all lines of business on a combined basis. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified the related deferred acquisition cost is written down and, if necessary, an additional provision (unexpired risk provision) is established. The deficiency is recognised in profit or loss for the year..

(vi) Insurance receivables

Receivables arising from insurance contracts are classified as receivables and are reviewed for impairment as part of the impairment review of receivables.

Specifically, insurance receivables are recognised when the policy is issued and measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment on a specific basis and collectively for balances where there is no specific assessment, whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

(vii) Subrogation receivables

Subrogation receivables are recognised when the claim is regulated and it is evident that company has right to obtain subrogation. The carrying value of subrogation receivables is reviewed for impairment on a specific basis and collectively for balances where there is no specific assessment, whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Subrogation receivables are not discounted in separate financial statements.

D. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

E. Financial instruments

(i) Non-derivative financial assets and financial liabilities – recognition and measurement

The Company initially recognises loans and receivables, bank deposits and cash and cash equivalents on the date that they are originated.

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise insurance and reinsurance payables.

(ii) Non-derivative financial assets and financial liabilities - derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

(iv) Gains and losses on subsequent measurement

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

F. Property and equipment

Property and equipment, which do not qualify as investment property, are stated at cost, except the Land and building class that are stated at fair value, excluding the costs of day to day servicing, less accumulated depreciation and any impairment. Land is not depreciated.

The initial cost of property and equipment includes directly attributable costs of bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

• Buildings	25-50 years
• Computers and related equipment	3- 5 years
• Motor vehicles	2-7 years
• Office furniture and equipment	7-10 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits from the use of the asset are expected. Any gain or loss arising on de-recognition of the asset is included in profit or loss in the year the asset is derecognized.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing, such as repairs and maintenance expenditure, of property and equipment are recognised in profit or loss as incurred.

G. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. These include properties with currently undetermined future use. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any impairment. Land is not depreciated.

The estimated useful life of building for the current and comparative periods is 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

H. leases

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and lease liabilities in 'Trade and other payables'.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

A lease term reflects the Company's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Company bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease, forthcoming changes in regulation and the future business plans of the Company to be effectively captured in the estimate of the lease term.

I. Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and receivables. The Company reviews its loans and receivables, to assess impairment on a regular basis. A loan and receivables is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of loan and receivables and that event (or events) has had an impact on the estimated future cash flows of loan and receivables that can be reliably estimated.

The Company considers evidence of impairment for loans and receivables at both an individual asset and a collective level. The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the loan and receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's and receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

J. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

K. Taxation

Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

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. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2024.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2024, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2024 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2024 and hence, no deferred income tax assets and liabilities will arise, there on.

L. Interest income and expenses and fee and commission income

Interest income and expense are recognised in profit or loss as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan arrangement fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method. Other fee and commission income is recognised when the corresponding service is provided.

NOTE 24. New Standards and Interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 with earlier application permitted; however, the Company has not early adopted them in preparing these separate financial statements.

Of those standards that are not yet effective, IFRS 17 and IFRS 9 are expected to have a significant impact on the Company's separate financial statements in the period of initial application.

IFRS 17 *Insurance Contracts*

IFRS 17 *Insurance Contracts* introduces an accounting model that measures Company's insurance contracts based on fulfilment cash flows and a contract service margin (CSM). The CSM is determined for the groups of insurance contracts. Insurers will need to account for their business performance at a more granular level. It brings greater comparability and transparency about the profitability of new and in-force business and gives users of separate financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

The insurer can choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income to reduce volatility. The reinsurance contract held is accounted for separately from the underlying direct contracts. IFRS 17 requires information to be disclosed at a level of granularity that helps users assess the effects of contracts have on financial position, financial performance and cash flows.

IFRS 17 was intended to become effective for annual periods beginning on or after 1 January 2021. Earlier adoption is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date of application of IFRS 17. Full retrospective approach is required, but expedients (such as modified retrospective approach and fair value approach) could be used. An insurer could apply different approaches for different groups.

At its December 2018 meeting, the IASB voted to propose a narrow-scope amendment to IFRS 17. This follows the Board's tentative decision in November 2018 to propose a one-year deferral of IFRS 17's effective date to 2022. At its March 2020 meeting, the IASB decided to defer the effective date of IFRS 17 for another year to 1 January 2023. The Board also decided to extend the temporary exemption to IFRS 9, granted to insurers who meet specified criteria, to 1 January 2023.

Impact assessment

The Company believes that IFRS 17 is likely to significantly change presentation of the financial statements as well as the amounts of reserves. The Company believes that application of IFRS 17 is likely to lead to an increase in liabilities in respect of incurred claims and to a decrease in equity. The Company has not finalised its assessment of the effect of application of IFRS 17 yet.

IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Business model assessment

The Company will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considered the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impact assessment

For the purpose of preparation of the additional disclosure required by IFRS 4 for insures applying temporary exemption from IFRS 9 the Company finalised the assessment of SPPI criteria. Based on assessment performed SPPI criteria is met for all debt financial assets not measured at FVTPL. The Company has not finalised the assessment of business models for managing the financial assets. Based on its preliminary assessment, the Company does not believe that the new classification requirements will have a material impact on its separate financial statements.

<u>Impairment - Financial assets and contract assets</u>

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Insurance receivables are not within the scope of IFRS 9 impairment requirements.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas:

– assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
– incorporating forward-looking information into the measurement of ECLs.

Impact assessment

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Company has not finalised its methodology over ECL assessment.

<u>Classification - Financial liabilities</u>

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities on the day of initial application of IFRS 9.

<u>Disclosures</u>

IFRS 9 will require extensive new disclosures, in particular about, credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

<u>Transition</u>

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2023.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.
  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

All financial assets which are measured under IAS 39 at amortised cost meet SPPI test.

Other standards

The following amended standards are not expected to have a significant impact on the Company's separate financial statements:

– *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*
– *Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)*
– *Definition of Accounting Estimates (Amendments to IAS 8).*