JSC Insurance Company GPI Holding

Separate Financial Statements

for 2023

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 6 to 41.

This responsibility includes:

- preparation of separate financial statements in accordance with IFRS Accounting 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 2023 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: 2 April 2024

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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 2023, 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 material 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 2023, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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. Our opinion on the separate financial statements does not cover the Management Report.

In connection with our audit of the separate financial statements, our responsibility is to read the Management Report, 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.

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work we have performed, we conclude that the Management Report:

- 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 Accounting 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
2 April 2024

LIMITED LIABILITY COMPANY
KPMG
KPMG GEORGIA
404437695

	Note	31 December 2023 GEL'000	31 December 2022 (Restated*) GEL'000	1 January 2022 (Restated*) GEL'000
Assets				
Property and equipment	9	4,349	3,140	3,883
Intangible assets	10	2,656	3,190	1,847
Investment property		986	280	174
Investments in subsidiaries	11	2,180	1,180	1,180
Bank deposits	19	41,326	37,264	36,448
Loans receivable	19	3,474	3,165	2,980
Reinsurance contract assets held	15	18,614	17,549	15,359
Other assets	12	7,818	8,428	8,696
Cash and cash equivalents	13	3,975	5,557	6,396
Total assets		**85,378**	**79,753**	**76,963**
Equity	14			
Ordinary shares		37,972	37,972	37,972
Share premium		126	126	126
Revaluation reserve for property		2,572	2,572	2,572
Retained earnings/ (accumulated losses)		6,684	3,160	(1,920)
Total equity		**47,354**	**43,830**	**38,750**
Liabilities				
Liability for remaining coverage	15	11,423	11,405	6,524
Liability for incurred claims	15	22,333	16,919	24,671
Investment contract liabilities	16	1,930	2,025	2,346
Trade and other payables	17	2,338	4,648	3,851
Deferred tax liability	8	-	926	821
Total liabilities		**38,024**	**35,923**	**38,213**
Total equity and liabilities		**85,378**	**79,753**	**76,963**

*The comparative information is restated on account of changes in accounting policies. See Note 4

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 2 April 2024

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

	Note	2023 GEL'000	2022 (Restated*) GEL'000
Insurance service revenue	**6**	171,679	152,790
Insurance service expenses	6	(152,883)	(131,614)
Reinsurance result	6	(9,413)	(14,844)
Insurance service result		**9,383**	**6,332**
Net insurance and reinsurance finance expenses	15	(972)	(980)
Other operating expenses	7	(5,368)	(4,964)
Interest income from placements in banks		5,380	4,482
Net other income		147	1,134
Profit before income tax		**8,570**	**6,004**
Income tax benefit/(expense)	8	144	(924)
Profit for the year		**8,714**	**5,080**
Total comprehensive income for the year		**8,714**	**5,080**

*The comparative information is restated on account of changes in accounting policies. See Note 4

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 2 April 2024

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

	Note	2023 GEL'000	2022 (Restated*) GEL'000
Cash flow from operating activities			
Profit for the year		8,714	5,080
Adjustments for:			
Depreciation and amortisation		938	1,205
Loss on disposal property and equipment and investment property		-	219
Interest income		(5,689)	(4,886)
Interest expense		91	91
Net insurance and reinsurance finance income		972	980
Income tax (benefit)/expense		(144)	924
		4,882	**3,613**
Changes in operating assets and liabilities:			
Change in LIC		2,735	(8,884)
Change in LRC		18	4,881
Change in other assets		610	268
Change in reinsurance contract assets		(65)	(2,038)
Change in investment contract liabilities		(186)	(416)
Change in trade and other payables		(2,215)	1,605
Total changes in operating assets and liabilities		**897**	**(4,584)**
Income tax paid		(779)	(1,100)
Net cash from/(used in) operating activities		**5,000**	**(2,071)**
Cash flow from investing activities			
Acquisition of property and equipment and intangible assets		(1,613)	(2,135)
Repayment of loans receivable		-	178
Acquisition of subsidiary		(1,000)	-
Placements on bank deposits		(36,057)	(35,271)
Withdrawals from bank deposits		32,536	35,126
Interest received		4,840	3,861
Net cash (used in)/from investing activities		**(1,294)**	**1,759**
Cash flow from financing activities			
Repayment of lease liabilities		(98)	(527)
Dividends paid		(5,190)	-
Net cash used in financing activities		**(5,288)**	**(527)**
Decrease in cash and cash equivalents		**(1,582)**	**(839)**
Cash and cash equivalents at the beginning of the year		5,557	6,396
Cash and cash equivalents at the end of the year	13	**3,975**	**5,557**

*The comparative information is restated on account of changes in accounting policies. See Note 4

Paata Lomadze
General Director

Levan Zuroshvili
Chief Financial Officer

Date: 2 April 2024

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
Balance as at 1 January 2022 (as previously reported)	**37,972**	**126**	**2,572**	**11,565**	**52,235**
Adjustment on initial application of IFRS 9 (Note 4)	-	-	-	(325)	(325)
Adjustment on initial application of IFRS 17 (Note 4)	-	-	-	(13,160)	(13,160)
Balance as at 1 January 2022 (restated*)	**37,972**	**126**	**2,572**	**(1,920)**	**38,750**
Total comprehensive income					
Profit for the year (restated*)	-	-	-	5,080	5,080
Balance as at 31 December 2022 (restated*)	**37,972**	**126**	**2,572**	**3,160**	**43,830**
Balance as at 1 January 2023	**37,972**	**126**	**2,572**	**3,160**	**43,830**
Total comprehensive income					
Profit for the year	-	-	-	8,714	8,714
Transactions with owners of the Company					
Dividends	-	-	-	(5,190)	(5,190)
Total contributions and distributions	**-**	**-**	**-**	**(5,190)**	**(5,190)**
Balance as at 31 December 2023	**37,972**	**126**	**2,572**	**6,684**	**47,354**

*The comparative information is restated on account of changes in accounting policies. See Note 4

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 2 April 2024

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 Despite global factors, economy grew by 7%, inflation rate resulted in 2.5% for 2023 in Georgia. The real GDP growth is mainly driven by the increased export, tourism revenues and acceleration of remittances related to the inflow of migrants/tourists from Russia, Ukraine and Belarus since the start of the conflict in Ukraine.

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 2023 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 2023, 31 December 2022 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 ("IFRS Accounting Standards").

This is the first set of the Company's annual financial statements to which IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts has been applied. Changes to significant accounting policies are described in Note 4.

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 IFRS Accounting Standards as adopted by the EU. 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. Changes in significant accounting policies

The Company has initially applied IFRS 17 and IFRS 9, including any consequential amendments to other standards, from 1 January 2023. These standards have brought significant changes to the accounting for insurance and reinsurance contracts and financial instruments. As a result, the Company has restated certain comparative amounts and presented a third statement of financial position as at 1 January 2022.

Except for the changes below, the Company has consistently applied the accounting policies as set out in Note 24 to all periods presented in these separate financial statements.

The nature and effects of the key changes in the Company's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarised below

A. IFRS 17 Insurance Contracts

i. Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts held. It introduces a model that measures groups of insurance contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a contractual service margin ("CSM").

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Company expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

The Company applies the Premium Allocation Approach ("PAA") to simplify the measurement of contracts. When measuring liabilities for remaining coverage, the PAA is similar to the Company's previous accounting treatment related to recognition of revenues from insurance contracts. However, when measuring liabilities for incurred claims, the Company now discounts the future cash flows (unless they are expected to occur in one year or less from the date on which the claims are incurred) and includes an explicit risk adjustment for non-financial risk.

Previously, all acquisition costs were recognised and presented as separate assets from the related insurance contracts ('deferred acquisition costs') until those costs were included in profit or loss and OCI. Under IFRS 17, only insurance acquisition cash flows that arise before the recognition of the related insurance contracts are recognised as separate assets and are tested for recoverability. These assets are presented in the carrying amount of the related portfolio of contracts and are derecognised once the related contracts have been recognised.

Income and expenses from reinsurance contracts held other than reinsurance finance income and expenses are now presented as a single net amount in profit or loss. Previously, amounts recovered from reinsurers and reinsurance expenses were presented separately.

For an explanation of how the Company accounts for insurance and reinsurance contracts under IFRS 17, see Note 24(E).

ii. Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach to the extent practicable. Under the full retrospective approach, at 1 January 2022 the Company:

- identified, recognised and measured each group of insurance and reinsurance contracts held as if IFRS 17 had always been applied;
- derecognised previously reported balances that would not have existed if IFRS 17 had always been applied.
- recognised any resulting net difference in equity.

B. IFRS 9 Financial Instruments

IFRS 9 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.*

i. Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

IFRS 9 has not had a significant effect on the Company’s accounting policies for financial assets or liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 24(k).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at 1 January 2022 and 31 December 2022 had effect on statement of financial position and statement of profit or loss. see Note 4 C.

iii. Transition

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2022.

C. Restatement

The following table summarises the impact of IFRS 17 and IFRS 9 on the Company's statement of financial position as at 31 December 2022:

'000 GEL	**Impact of adoption of IFRS 17 and IFRS 9**			
	As previously reported	**Impact of adoption of IFRS 17 (Note 4 A)**	**Impact of adoption of IFRS 9 (Note 4 B)**	**As restated**
Bank deposits	37,668	-	(404)	37,264
Reinsurance contract assets held	-	17,549	-	17,549
Reinsurers' share in Insurance contract provisions	22,107	(22,107)	-	-
Insurance receivables	54,505	(54,505)	-	-
Deferred acquisition costs	7,688	(7,688)	-	-
Other assets	23,407	(14,979)	-	8,428
Total assets	**161,887**	**(81,730)**	**(404)**	**79,753**
Insurance contract provisions	81,597	(81,597)	-	-
Liability for remaining coverage	-	11,405	-	11,405
Liability for incurred claims	-	16,919	-	16,919
Insurance and reinsurance payables	9,337	(9,337)	-	-
Trade and other payables	10,154	(5,506)	-	4,648
Total liabilities	**104,039**	**(68,116)**	**-**	**35,923**
Retained earnings/(accumulated losses)	17,178	(13,614)	(404)	3,160
Total equity	**57,848**	**(13,614)**	**(404)**	**43,830**

The following table summarises the impact of IFRS 17 and IFRS 9 on the Company's statement of financial position as at 1 January 2022:

'000GEL	**Impact of adoption of IFRS 17 and IFRS 9**			
	As previously reported	**Impact of adoption of IFRS 17 (Note 4 A)**	**Impact of adoption of IFRS 9 (Note 4 B)**	**As restated**
Bank deposits	36,773	-	(325)	36,448
Reinsurance contract assets held	-	15,359	-	15,359
Reinsurers' share in Insurance contract provisions	22,120	(22,120)	-	-
Insurance receivables	50,213	(50,213)	-	-
Deferred acquisition costs	6,531	(6,531)	-	-
Other assets	18,223	(9,527)	-	8,696
Total assets	**150,320**	**(73,032)**	**(325)**	**76,963**
Insurance contract provisions	74,923	(74,923)	-	-
Liability for remaining coverage	-	6,524	-	6,524
Liability for incurred claims	-	24,671	-	24,671
Insurance and reinsurance payables	10,446	(10,446)	-	-
Trade and other payables	9,549	(5,698)	-	3,851
Total liabilities	**98,085**	**(59,872)**	**-**	**38,213**
Retained earnings/(accumulated losses)	11,565	(13,160)	(325)	(1,920)
Total equity	**52,235**	**(13,160)**	**(325)**	**38,750**

The following table summarises the impact of IFRS 17 and IFRS 9 on the Company's statement of profit or loss and other comprehensive income for the year ended 2022:

'000 GEL	**Impact of adoption of IFRS 17 and IFRS 9**			
	As previously reported	**Impact of adoption of IFRS 17 (Note 4 A)**	**Impact of adoption of IFRS 9 (Note 4 B)**	**As restated**
Gross premiums	162,337	(162,337)	-	-
Less: reinsurers' share of gross premiums	(90,603)	90,603	-	-
Change in the gross provision for unearned premiums	(9,547)	9,547	-	-
Change in the reinsurers' share in gross provision for unearned premiums	3,044	(3,044)	-	-
Commission and other income from reinsurance	16,772	(16,772)	-	-
Gross benefits and claims paid	(109,374)	109,374	-	-
Reinsurers' share of gross benefits and claims paid	59,571	(59,571)	-	-
Gross change in the provision for outstanding claims	2,873	(2,873)	-	-
Change in reinsurers' share in the provision for outstanding claims	(3,056)	3,056	-	-
Investment income	1,232	(1,232)	-	-
Direct acquisition fees and commissions	(5,712)	5,712	-	-
Other acquisition expenses	(18,568)	18,568	-	-
Change in deferred acquisition costs	1,157	(1,157)	-	-
Other operating and administrative expenses	(7,560)	7,560	-	-
Insurance service revenue	-	152,790	-	152,790
Insurance service expenses	-	(131,614)	-	(131,614)
Reinsurance result	-	(14,844)	-	(14,884)
Net insurance and reinsurance finance expense	-	(980)	-	(980)
Other operating expenses	-	(4,964)	-	(4,964)
Net other income	-	1,189	(55)	1,134
Profit for the year	**6,105**	**(989)**	**(55)**	**5,080**

NOTE 5. Use of estimates and judgements

The preparation of separate financial statements in conformity with IFRS Accounting 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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended as at 31 December 2023 is included in the following notes:

- Note 19 (E (a)) – Financial risks;
- Note 15 – Insurance contract liabilities and reinsurance contract assets

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 6. Insurance result

	2023	2022 Restated
Insurance revenue from contracts measured under PAA	171,679	152,790
Insurance revenue – total	**171,679**	**152,790**
Incurred claims and other directly attributable expenses – net*	(157,836)	(139,092)
Changes that relate to past service - adjustments to the LIC	5,205	7,631
Risk adjustment	(252)	(163)
Insurance service expenses	**(152,883)**	**(131,614)**
Net income from insurance contracts	18,796	21,176
Reinsurance expense for - contracts measured under the PAA	(77,442)	(70,789)
Amounts recoverable from reinsurers – net	68,029	55,945
Net income from reinsurance contracts held	(9,413)	(14,844)
Insurance service result	**9,383**	**6,332**

* Incurred claims and other directly attributable expenses - net comprise from Incurred claims of GEL 119,735 thousand (2022: GEL 107,021 thousand), amortised insurance acquisition cash flows of GEL 28,512 thousand (2022: GEL 24,224 thousand) and directly attributable expenses of GEL 9,689 thousand (2022: GEL 7,847 thousand).

The following table disaggregates amortised insurance acquisition cash flows and other directly attributable expenses included in incurred claims and other directly attributable expenses.:

	2023 GEL'000	2022 Restated GEL'000
Salary	15,207	15,140
Commission	14,992	10,492
Marketing and acquisition costs	2,986	2,189
Claims handling costs	2,102	2,190
IT support	620	232
Depreciation	555	578
Other expenses	1,639	1,250
Total	**38,101**	**32,071**

NOTE 7.Other operating expenses

	2023 GEL'000	2022 Restated GEL'000
Salary	1,640	1,699
Rent	820	781
Professional fees	612	459
Depreciation	383	627
Social activities	335	303
Bank charges	268	190
Other expenses	1,310	905
	5,368	**4,964**

The other operating expenses include fees accrued for the audit services of GEL 304 thousand (2022: GEL 157 thousand).

NOTE 8. Income taxes

The Company's applicable tax rate is the income tax rate of 15% (2022: 15%).

	2023 GEL'000	2022 Restated GEL'000
Current income tax expense	782	820
Origination and reversal of temporary differences	-	104
Change in recognised deductible temporary differences (due to change in the legislation)	(926)	-
Total income tax (benefit)/expense	**(144)**	**924**

Reconciliation of effective tax rate:	2023 GEL'000	2022 Restated GEL'000
Profit before income tax	8,570	6,004
Income tax at the applicable tax rate	1,291	900
Change in recognised deductible temporary differences (due to change in the legislation)	(926)	
Net non-taxable income/(nondeductible expense)	(509)	24
	(144)	**924**

Movement in temporary differences during the year:

GEL'000	1 January 2023	Recognized in profit or loss	31 December 2023
Deferred acquisition costs	(966)	966	-
Provision for outstanding claims	(464)	464	-
Property and equipment and intangible assets	(53)	53	-
Other assets	349	(349)	-
Trade and other payables	208	(208)	-
	(926)	**926**	**-**

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	515	(307)	208
	(822)	**(104)**	**(926)**

Reversal of previously recognized deferred tax liabilities of GEL 924 thousand is attributable to changes in Georgian tax legislation. 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 do 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 was recognized. Consequently the amounts recognized as at 31 December 2023 were written off.

NOTE 9. 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 2023	2,235	1,945	180	358	873	5,591
Additions	38	1,215	-	62	298	1,613
Disposals/write-off	-	(47)	(44)	-		(91)
31 December 2023	**2,273**	**3,113**	**136**	**420**	**1,171**	**7,113**
Accumulated depreciation						
1 January 2023	153	1,329	87	354	528	2,451
Charge for the year	51	227	14	54	58	404
Disposals/write-off	-	(47)	(44)	-		(91)
31 December 2023	**204**	**1,509**	**57**	**408**	**586**	**2,764**
Net book value						
31 December 2023	**2,069**	**1,604**	**79**	**12**	**585**	**4,349**
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**

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 2023 and 31 December 2022 no significant indicators were observed on the market, that would materially change the fair value of land and buildings as at 31 December 2023 and as at 31 December 2022.

Carrying amount of land and buildings if no revaluations had taken place as at 31 December 2023 would amount to GEL 358 thousand (2022: GEL 320 thousand).

NOTE 10. Intangible assets

GEL '000	Licenses	Insurance software	Other software	Total
Balance as at 1 January 2022	898	978	2,425	4,301
Additions	-	-	1,725	1,725
Balance as at 31 December 2022	**898**	**978**	**4,150**	**6,026**
Balance as at 1 January 2023	898	978	4,150	6,026
Balance as at 31 December 2023	**898**	**978**	**4,150**	**6,026**
Balance as at 1 January 2022	(831)	(705)	(918)	(2,454)
Amortisation for the year	(12)	(134)	(236)	(382)
As at 31 December 2022	**(843)**	**(839)**	**(1,154)**	**(2,836)**
Balance as at 1 January 2023	(843)	(839)	(1,154)	(2,836)
Amortisation for the year	(39)	(89)	(406)	(534)
As at 31 December 2023	**(882)**	**(928)**	**(1,560)**	**(3,370)**
Net book Value 1 January 2022	**67**	**273**	**1,507**	**1,847**
Net book Value 31 December 2022	**55**	**139**	**2,996**	**3,190**
Net book Value 31 December 2023	**16**	**50**	**2,590**	**2,656**

NOTE 11. Investments in subsidiaries

	Activity	31 December 2023 GEL'000	Ownership %	31 December 2022 GEL'000	Ownership %
Medical Concern Curatio JSC	Medical services	680	100	680	100
Global Assistance Georgia JSC	Automotive	1,500	50	500	50
		2,180		**1,180**	

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

During 2023 GEL 1,000 thousand was contributed to share capital of Global Assistance Georgia JSC.

NOTE 12. Other assets

	31 December 2022 GEL'000	31 December 2022 restated GEL'000	1 January 2022 restated GEL'000
Receivable from sale of investment property	2,801	2,814	3,226
Other advances to subsidiaries and other counterparties	2,369	3,236	3,028
Purchased bonds held at amortised cost	1,618	1,626	1,864
Advances to subsidiaries and other counterparties for medical services	225	197	193
Others	805	555	385
	7,818	**8,428**	**8,696**

NOTE 13. Cash and cash equivalents

	31 December 2023 GEL'000	31 December 2022 GEL'000
Cash in banks	3,975	5,557
Cash and cash equivalents in the separate statement of financial position and in the separate statement of cash flows	**3,975**	**5,557**

NOTE 14. 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 2023**		**31 December 2022**	
	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 2023, the Company declared dividends of 5,190 thousand to its shareholders which were paid during 2023. Dividend per share amounted to GEL 3.46.

During 2022 the Company has not declared dividends.

NOTE 15. Insurance and reinsurance contract assets and liabilities

A. Movements in insurance contract liabilities

	December 31, 2023				December 31, 2022 restated			
		Liability for incurred claims				Liability for incurred claims		
	Liability For1 remaining coverage	Estimates of present value of FCF	Risk adjustment for non-financial risk	Total	Liability for remaining coverage	Estimates of present value of FCF	Risk adjustment for non-financial risk	Total
Insurance contract liabilities as at 1 January	11,405	4,805	12,114	28,324	1,904	12,720	11,951	26,575
Insurance revenue	(171,679)			(171,679)	(152,790)			(152,790)
Insurance service expenses:								
Incurred claims and other directly attributable expenses		149,936	8,152	158,088	-	126,334	12,921	139,255
Changes that relate to past service - adjustments to the LIC		2,168	(7,373)	(5,205)	-	4,310	(11,951)	(7,641)
Insurance service expenses	-	152,104	779	152,883	-	130,644	970	131,614
Finance expense from insurance contracts		(605)	(527)	(1,132)	-	(1,165)	(807)	(1,972)
Total changes in the statement of profit and loss	**(171,679)**	**151,499**	**252**	**(19,928)**	**(152,790)**	**129,479**	**163**	**(23,148)**
Cashflows								
Premiums received net of acquisition costs	171,697			171,697	162,291	-	-	162,291
Claims and other directly attributable expenses paid		(146,337)		(146,337)	-	(137,394)	-	(137,394)
Total cash inflows / (outflows)	171,697	(146,337)	-	25,360	162,291	(137,394)	-	24,897
Insurance contract liabilities as at 31 December	**11,423**	**9,967**	**12,366**	**33,756**	**11,405**	**4,805**	**12,114**	**28,324**

B. Movements in reinsurance contract assets

	December 31, 2023				December 31, 2022 restated			
		Asset for incurred claims				Asset for incurred claims		
	1Asset for remaining coverage	Estimates of present value of FCF	Risk adjustment for non-financial risk	Total	Asset for remaining coverage	Estimates of present value of FCF	Risk adjustment for non-financial risk	Total
Reinsurance contract assets as at 1 January	(9,272)	(7,371)	(906)	(17,549)	(3,027)	(12,050)	(282)	(15,359)
Reinsurance expense								
Allocation of reinsurance premiums	77,442	-	-	77,442	70,789	-	-	70,789
Reinsurance share in Incurred claims	-	(66,449)	(538)	(66,987)	-	(54,507)	(542)	(55,049)
Changes that relate to past service - adjustments to the AIC	-	(1,586)	544	(1,042)	-	(814)	(82)	(896)
Net expenses from reinsurance contracts	**77,442**	**(68,035)**	**6**	**9,413**	**70,789**	**(55,321)**	**(624)**	**14,844**
Net finance expenses from reinsurance contracts	-	160	-	160	-	992	-	992
Total changes in the statement of profit and loss	**77,442**	**(67,875)**	**6**	**9,573**	**70,789**	**(54,329)**	**(624)**	**15,836**
Cashflows								
Premiums paid net of commission income	(73,674)	-	-	(73,674)	(77,034)	-	-	(77,034)
Claims recovered	-	63,036	-	63,036	-	59,008	-	59,008
Total cash inflows / (outflows)	**(73,674)**	**63,036**	**-**	**(10,638)**	**(77,034)**	**59,008**	**-**	**(18,026)**
Reinsurance contract assets held as at 31 December	**(5,504)**	**(12,210)**	**(900)**	**(18,614)**	**(9,272)**	**(7,371)**	**(906)**	**(17,549)**

C. Gross claims development

	2018 and earlier	2019	2020	2021	2022	2023	Total
Estimate of cumulative claims							
Accident year	78,100	66,939	86,714	100,317	110,010	125,196	567,276
One year later	76,802	65,482	82,343	95,939	108,536	-	429,102
Two years later	76,792	65,490	82,802	95,442	-	-	320,526
Three years later	76,789	66,069	82,778	-	-	-	225,636
Four years later	76,800	66,065	-	-	-	-	142,865
Five years later	78,680	-	-	-	-	-	78,680
Current estimate of incurred claims	78,680	66,065	82,778	95,442	108,536	125,196	**556,697**
Cumulative payments to date	74,347	66,065	82,226	95,093	106,946	111,994	**536,671**
Gross outstanding claims	**4,333**	**-**	**552**	**349**	**1,590**	**13,202**	**20,026**
Cash inflow from regress							(8,927)
Effect of discounting							(1,132)
Risk adjustment for non-financial risk							12,366
Liability for incurred claims							**22,333**

D. Significant judgements and estimates

i) Fulfilment* cash *flows

Fulfilment cash flows comprise:

- estimates of future cash flows;
- Discounting rate adjustment - to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk.

Estimates of future cash flows

In estimating future cash flows, the Company incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. Company uses claims paid chain ladder models in order to derive cash flows estimates for incurred claims. Directly attributable cash flows include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts. Other costs that are incurred in fulfilling the contracts include claims handling, maintenance, administration costs;

***ii) Discount* rate**

The Company has established discount yield curves using risk-free rates adjusted to reflect the appropriate illiquidity characteristics of the applicable insurance contracts. Measurement of liabilities for incurred claims includes discounting adjustment for time value of money. Measurement of the liability for remaining coverage does not includes an adjustment for the time value of money and the effect of financial risk as the premium due date and the related period of services are less than 12 months apart.

iii) Risk adjustments for non-financial risk

Risk adjustments for non-financial risk are determined to reflect the compensation that the individual issuing entity would require for bearing non-financial risk. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the entity, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion, and the effects of the diversification benefits are determined using a correlation matrix technique

The risk adjustments for non-financial risk are determined through calculating stress case scenario, applied to basic scenario methodologies used to determine fulfilment cash flows, and non-model risk adjustment.

Stress case scenario methodology is based on chain ladder model, which uses only on historical development factors, but also estimation of development factor curves for several scenarios. Management estimated that recent adverse events (Covid-19, Russian Ukrainian war) has changed customer behavior and historical development factors may not be useful. Management used scenario analysis for alternative methodology and in order to calculate risk adjustment.

Non-model risk adjustment was determined with addition of geopolitical risk premium adjustment to cost of capital for Georgian entities. Non-model risk adjustment amounted to 20% (2022: 20%) and was applied to total fulfilment cash flows calculated using alternative methodology.

The risk adjustments for non-financial risk was applied consistently, since adoption of IFRS 17. and although it is presented on balance sheet it was not realized during 2023 and 2022 year

Management recognizes risk adjustment for non-financial risk using consistent estimates subsequent to adoption of IFRS 17. Underlying assumptions for risk adjustment were consistent for 2023, 2022 and 2021 and majority of risk adjustment was not realized. There was no direct material impact on annual profit or loss for 2023 and 2022 years.

NOTE 16. Investment contract liabilities

	31 December 2023	31 December 2022
Number of registered participants		
• In the voluntary funds	12,861	12,861
Total assets under management (GEL'000)	**1,930**	**2,025**

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 2023 GEL'000	31 December 2022 Restated GEL'000
Employee liabilities	850	2,847
Lease liabilities	541	460
Other liabilities	947	1,341
	2,338	**4,648**

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 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.

(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).

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying liabilities for incurred claims. 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. 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. Company has insurance contracts through different lines of businesses in order to reduce concentration risks.

	31-Dec-23		**31-Dec-22**	
	LRC GEL'000	**LIC GEL'000**	**LRC GEL'000**	**LIC GEL'000**
Medical	(5,163)	12,907	(3,657)	13,188
Property	2,479	3,910	2,244	1,996
Motor	937	4,254	1,055	2,217
Bonds	7,429	(6,294)	5,496	(5,772)
Liabilities	4,450	4,308	4,874	3,123
Credit Insurance	951	1,416	1,138	1,406
Other	340	1,832	255	761
	11,423	**22,333**	**11,405**	**16,919**

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.

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.

Credit exposure

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

	31 December 2023 GEL'000	31 December 2022 GEL'000
Low risk		
Bank deposits	41,326	37,264
Reinsurance contract assets held	18,614	17,549
Loans receivable	3,474	3,165
Purchased bonds	1,618	1,626
Cash and cash equivalents	3,975	5,557
High risk		
Receivable from sale of investment property	2,801	2,814
Total credit risk exposure	**71,808**	**67,975**

Low risk - the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the borrower to fulfil its contractual cash flow obligations.

High risk - the counterparties have a week capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely increase the ability of the counterparties to fulfil their contractual cash flow obligations.

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. All balances are categorized under Stage 1. Estimated credit loss for bank deposits as at 31 December 2023 amounted to GEL 390 thousand (2022: GEL 380 thousand).

Loans receivable of GEL 3,474 thousand (31 December 2022: GEL 3,165 thousand) are neither past due not impaired as at 31 December 2023 and 31 December 2022.Management estimates the credit risk of counterparty approximates default rating of B. All balances are categorized under Stage 1. The Company does not expect any counterparty to fail to meet its obligations. Estimated credit loss for loans receivable as at 31 December 2023 and 31 December 2022 is assessed as immaterial.

Purchased bonds of GEL 1,618 thousand (31 December 2022: GEL 1,626 thousand) 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. All balances are categorized under Stage 1. The Company does not expect any counterparty to fail to meet its obligations. Estimated credit loss for purchased bonds as at 31 December 2023 and 31 December 2022 is assessed as immaterial.

Reinsurance contract asset held of GEL 18,614 thousand (31 December 2022: GEL 17,549 thousand) are mainly held with reputable reinsurance companies with short term issuer default rating of BBB, based on Fitch Rating. The Company does not expect any counterparty to fail to meet its obligations. All balances are categorized under Stage 1. Estimated credit loss for reinsurance contract asset held as at 31 December 2023 and 31 December 2022 is assessed as immaterial.

The receivable from the sale of investment property is defaulted and categorized in stage 3, nevertheless it is fully collateralized with the sold property value of which is higher than outstanding receivable, in the event of non-payment the Company will receive the sold investment property back. Company assesses expected credit loss to be insignificant for the receivable from sale of investment property as at 31 December 2023 and 31 December 2022.

(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.

All of the Company’s financial and insurance and reinsurance contract related assets and liabilities, are due 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 2023 and 31 December 2022:

	31 December 2023, USD GEL’000	**31 December 2023, EUR GEL’000**	**31 December 2022, USD GEL’000**	**31 December 2022, EUR GEL’000**
Reinsurance contract assets held	3,531	(11,544)	4,505	(4,158)
Other assets	4,426	-	4,446	-
Cash and cash equivalents	289	199	235	147
Total assets	**8,246**	**(11,345)**	**9,186**	**(4,011)**
Liabilities				
Liability for remaining coverage	5,710	2,522	8,009	1,988
Liability for incurred claims	12,855	680	7,217	653
Total liabilities	**18,565**	**3,202**	**15,226**	**2,641**
Net position as at 31 December	**(10,319)**	**(14,547)**	**(6,040)**	**(6,652)**

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 2023 GEL’000	**31 December 2022 GEL’000**
10% appreciation of USD against GEL	(877)	(513)
10% depreciation of USD against GEL	877	513
10% appreciation of EUR against GEL	(1,237)	(565)
10% depreciation of EUR against GEL	1,237	565

(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 IFRS Accounting 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.

As at 31 December 2023 , the Company was in compliance with the level of Regulatory Capital in excess of RSM.

NOTE 20. Related party transactions and balances

Name	Transaction 2023 GEL’000	Outstanding balance 31 December 2023 GEL’000
Subsidiaries		
Claims paid	(7,217)	318
Loans given*	-	3,474
Interest income	296	-
Member of the same group		
Insurance software	-	160
Reinsurance contract assets held	5,681	6,980

Name	Transaction 2022 GEL’000	Outstanding balance 31 December 2022 GEL’000
Subsidiary		
Claims paid	(7,609)	684
Loans given*	-	3,165
Interest income	179	-
Member of the same group		
Insurance software		171
Reinsurance contract assets held	(550)	6,254

* The loans given to related parties above are denominated in GEL and bear an interest rate of 10-13% maturing in 2023 and 2022.

Compensation of key management personnel

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

	2023 GEL’000	2022 GEL’000
Payroll	1,236	1,281
Bonuses	718	753
Other benefits	5	5
Total key management personnel compensation	**1,959**	**2,039**

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.

There are no 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. Moreover, the insurance and reinsurance contracts are measured at the estimated fulfilment cash flows that are expected to arise as the Company fulfils its contractual obligations in accordance with IFRS 17.

NOTE 23. Material accounting policies

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

In addition, the Company adopted the Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of “material”, rather than “significant”, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in certain instances.

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 determined by national bank of Georgia 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

IFRS 17 replaces IFRS 4 Insurance Contracts for annual periods on or after January 1, 2023. The Company has restated comparative information for 2022 applying the full retrospective transition approach prescribed in the standard. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contract and investment contracts with discretionary participation features. it introduces a model that measure groups of contracts based on the groups estimates of the present value of future cash flow that are expected to arise as the group fulfils the contracts, an explicit risk adjustment for non- financial risk and a CSM.

Under IFRS 17, insurance revenue in each reporting period represents the change in the liabilities for remaining coverage that relate to services for which the group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. in addition, investment components are no longer included in insurance revenue and insurance service expenses.

The Company applies the PAA to simplify the measurement of contacts. when measuring liabilities for remaining coverage, the PAA is similar to the Companies previous accounting treatment. However, when measuring for liabilities incurred claims, the group now discount the future cash flows and includes an explicit risk adjustment for non- financial risk.

The nature of the changes in accounting policies can be summarized, as follows

(i) Classification of contracts

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts that whereby 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.

The Company issues non-life insurance to individuals and businesses. Non-life insurance products offered include medical, property, motor, liability and others. These products offer protection of policyholder’s assets and indemnification of other parties that have suffered damage as a result of a policyholder’s actions.

Financial guarantee contracts are accounted for as insurance contracts. Deposits obtained under financial guarantee contracts are accounted under liability for remaining coverage with no profit or loss impact.

(ii) Level of aggregation

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue). The Company identifies portfolio per lines of businesses of insurance and reinsurance contracts as generally all insurance contracts issued by the company has similar risks and characteristics

(iii) Recognition and measurement of contracts

The Company recognises insurance contracts issued from the earliest of the following:

- The beginning of the coverage period of the group of contracts.
- The date when the first payment from a policyholder becomes due. If there is no contractual due date, then it is considered to be the date when the first payment is received from the policyholder.

The Company recognises reinsurance contracts held it has entered into from the earlier of the following:

- For reinsurance contracts that provide proportionate coverage, at the later of:

  (a) the beginning of the coverage period of the reinsurance contracts and
  (b) the initial recognition of any underlying contract.

The measurement of contracts includes all of the future cash flows within the boundary of each contract.

Insurance Contract

Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period under which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services.

A. substantive obligation to provide services ends when:

  a. The Company has the practical ability to reassess the risks of the particular policyholder and can set a price or level of benefits that fully reflects those reassessed risks; or
  b. Both of the following criteria are satisfied:

     - The Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and
     - the pricing of the premiums for coverage up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

Reinsurance contracts:

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ends when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

The contract boundary is reassessed at each reporting date and, therefore, may change over time.

Measurement

Premium Allocation Approach (PAA), which is a simplified measurement model under IFRS 17, is used to measure portfolio of the Company. The Company reasonably expects that using PAA would produce a measurement of the liability for remaining coverage for the company that would not differ materially from the one that would be produced applying the general measurement model requirements; or

The coverage period of each contract is one year or less for more than 98% (2022: 98%) of portfolio.

Premium Allocation Approach (PAA), which is a simplified measurement model under IFRS 17, is used to measure reinsurance assets held of the Company as they bear same characteristics as underlying insurance contracts.

On initial recognition of each group of insurance contracts that are not onerous, the carrying amount of the liability for remaining coverage (“LRC”) is measured at the premiums received on initial recognition less any insurance acquisition cash flows at that date, including any amount arising from the derecognition at that date of any asset recognised for insurance acquisition cash flows paid before that date, plus or minus any other assets or liabilities previously recognised for cash flows related to that group.

For reinsurance contracts held on initial recognition, the company measures the remaining coverage at the amount of ceding premiums paid.

Subsequent measurement under PAA:

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

a. the LRC; and
b. the Liability Incurred Claims (“LIC”), comprising the fulfilment cash flows (“FCF”) related to past service allocated to the group at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

a. the asset for remaining coverage, comprising of the ceding premiums payable and reinsurance commission receivable; and
b. the asset for incurred claims, comprising the FCF related to past service allocated to the group at the reporting date expected to be recovered from reinsurers.

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. Fulfilment cash flows comprise estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows, and a risk adjustment for non-financial risk.

The Company’s objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation.

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

Estimates of salvage and subrogation recoveries are included as a reduction to future cash outflows of the estimates of incurred claims liability. The allowance is the amount that can reasonably be recovered from the asset.

Onerous contract assessment:

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss in insurance service expense and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows, determined under the general measurement model (GMM), that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the estimates of the fulfilment cash flows of future revenues. A loss component will be established for the amount of the loss recognised. Subsequently, the loss component will be remeasured at each reporting date as the difference between the amounts of the fulfilments cash flows determined under the GMM relating to the future service and those relating to the future revenue. The onerous contract assessment is carried out on quarterly basis at cohort level.

Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognised on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

i. De-recognition and contract modification

The Company derecognises a contract when it is extinguished i.e., when the specified obligations in the contract expire or are discharged or cancelled. The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the company treats the changes in cash flows caused by the modification as changes in the estimates of fulfilment cash flows.

ii. Acquisition & Attributable Cost

Insurance acquisition cash flows are the costs that directly associated with selling and handling acquired contracts. The Company considers expenses for underwriting department, expenses for sales department, and commission expenses as acquisition costs. The Company has in place allocation technique to allocate the costs based on direct to indirect ratios. Both acquisition and attributable costs fall under the insurance service expense while the non-attributable costs are reported under other operating expenses and are not allocated to the groups of contracts.

iii. Presentation

Insurance revenue:

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The Company allocates the expected premium receipts to each period on the bases of the passage of time.

Insurance service expenses:

Insurance service expenses include the following:

a. Incurred claims for the period.
b. other incurred directly attributable expenses.
c. insurance acquisition cash flows.
d. changes that relate to past service – changes in the FCF relating to the LIC.
e. changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

Net expenses from reinsurance contracts:

Net expenses from reinsurance contracts comprise reinsurance expenses less amounts recovered from reinsurers. The Company recognises reinsurance expenses as it receives coverage or other services under groups of reinsurance contracts. For contracts measured under the PAA, the Company recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

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

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All financial assets of the company are classified as measured under amortised costs.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

All financial liabilities of the company are classified as measured under amortised costs.

***(i)* Derecognition**

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its separate statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non -cash assets transferred or liabilities assumed) is recognised in profit or loss.

***(ii)* Offsetting**

Financial assets and financial 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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. Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for ECLs on:

– financial assets measured at amortised cost;

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

– debt securities that are determined to have low credit risk at the reporting date; and
– other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
– the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the separate statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

H. 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.

I. 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. 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 interpretations are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these separate financial statements. The following new and 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).*
– *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).*
– *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*