JSC A Group

Consolidated financial statements

for the year ended 31 December 2019
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholder and Supervisory Board of JSC A Group

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2019 Management Report

Other information consists of the information included in the Group's 2019 Management Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon in our report on the audit of the consolidated financial statements.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Supervisory Board for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Supervisory Board 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.

Oleg Youshenkov

On behalf of EY LLC

Tbilisi, Georgia

27 April 2020

Consolidated statement of financial position

As at 31 December 2019

(Thousands of Georgian lari)

	Notes	2019	2018
Assets			
Cash and cash equivalents	6	3,550	11,332
Bank deposits	7	32,574	23,456
Available-for-sale financial assets	8	6,728	4,408
Equity investments at fair value		381	–
Insurance and reinsurance receivables	9	36,104	31,442
Loan issued	11	2,054	33
Ceded share of technical provisions	20	64,672	16,928
Current income tax assets		760	–
Deferred income tax assets	10	1,111	1,196
Deferred acquisition costs	12	3,812	3,324
Investment property	13	4,754	4,719
Property and equipment	14	48,139	36,916
Right-of-use assets	21	5,407	–
Goodwill and other intangible assets	15	24,565	23,286
Pension fund assets	16	4,868	18,932
Other assets	18	9,403	6,480
Total assets		**248,882**	**182,452**
Equity	19		
Share capital		1,113	1,023
Additional paid-in capital		13,244	8,153
Retained earnings		45,503	45,211
Equity attributable to holders of the parent		**59,860**	**54,387**
Non-controlling interests		98	–
Total equity		**59,958**	**54,387**
Liabilities			
Gross technical provisions	20	100,790	45,663
Other insurance liabilities	22	17,590	17,603
Current income tax liabilities		376	603
Borrowings	23	44,577	33,704
Lease liabilities	24	5,430	–
Pension fund liabilities	16	4,868	18,932
Other liabilities	25	15,293	11,560
Total liabilities		**188,924**	**128,065**
Total equity and liabilities		**248,882**	**182,452**

Signed and authorized for release on behalf of the management of JSC A Group:

Giorgi Baratashvili — General Director

27 April 2020

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

(Thousands of Georgian lari)

	Notes	*2019*	*2018*
Gross earned premiums on insurance contracts		98,161	90,404
Reinsurers' share of earned premiums on insurance contracts		(23,006)	(22,914)
Net insurance revenue	27	**75,155**	**67,490**
Gross insurance claims expenses		(89,902)	(29,990)
Reinsurer's share of insurance claims expenses		57,321	2,768
Claim settlement expenses		(1,703)	(1,280)
Income from regress and salvages		2,974	2,753
Net insurance claims and claims handling expenses	28	**(31,310)**	**(25,749)**
Acquisition costs, net of reinsurance	29	(12,198)	(9,520)
Net underwriting profit		**31,647**	**32,221**
Car Service Revenue	30	14,462	–
Cost of car service	31	(5,831)	–
Gross car service profit		**8,631**	**–**
Investment income	32	6,923	3,241
Pension fund asset management fee		129	449
Investment profit		**7,052**	**3,690**
Salaries and other employee benefits	33	(14,211)	(10,478)
General and administrative expenses	34	(8,310)	(4,752)
Depreciation and amortization expenses	14,15,21	(4,547)	(1,025)
Impairment charge	17	(478)	(1,536)
Net other operating income	35	926	772
Other expenses		**(26,620)**	**(17,019)**
Operating profit		**20,710**	**18,892**
Foreign exchange losses/gains		(742)	227
Interest expense		(4,675)	(39)
Net non-recurring items	36	(315)	(629)
Pre-tax profit		**14,978**	**18,451**
Income tax expense	10	(2,670)	(2,990)
Net profit and total comprehensive income		**12,308**	**15,461**
Attributable to:			
Equity holders of the parent		12,326	15,461
Non-controlling interests		(18)	–
Net profit and total comprehensive income		**12,308**	**15,461**

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2019

(Thousands of Georgian lari)

	Notes	*Share capital*	*Additional paid-in capital*	*Retained earnings*	*Attributable to the equity holders of the parent*	*NCI*	*Total equity*
31 December 2017		**1,889**	**6,987**	**39,750**	**48,626**	**–**	**48,626**
Total comprehensive income		–	–	15,461	**15,461**	–	**15,461**
Share based transactions		–	300	–	**300**	–	**300**
Group reorganisation	19	(866)	866	–	**–**	–	**–**
Dividends to the shareholder	19	–	–	(10,000)	**(10,000)**	–	**(10,000)**
31 December 2018		**1,023**	**8,153**	**45,211**	**54,387**	**–**	**54,387**
Total comprehensive income		–	–	12,326	**12,326**	(18)	**12,308**
Issue of share capital	19	90	4,910	–	**5,000**	116	**5,116**
Share based transactions		–	181	–	**181**	–	**181**
Dividends to the shareholder	19	–	–	(12,034)	**(12,034)**	–	**(12,034)**
31 December 2019		**1,113**	**13,244**	**45,503**	**59,860**	**98**	**59,958**

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

(Thousands of Georgian lari)

	Notes	2019	2018
Cash flows from operating activities			
Insurance premiums received		86,901	81,141
Reinsurance premiums paid		(12,801)	(15,075)
Insurance benefits and claims paid		(35,597)	(32,181)
Reinsurance claims received		6,072	8,318
Acquisition costs paid		(8,865)	(7,224)
Car Service revenue received		16,306	–
Cost of car service paid		(7,402)	–
Salaries and benefits paid		(17,084)	(11,981)
Interest received		1,939	3,018
Interest paid on borrowings		(4,206)	(159)
Interest paid on lease liabilities	24	(455)	–
Operating taxes paid		(208)	(360)
Other operating income received		5,329	2,357
Other operating expenses paid		(7,017)	(5,415)
Net cash flows from operating activities before income tax		**22,912**	**22,439**
Income tax paid		(3,553)	(2,734)
Net cash flows from operating activities		**19,359**	**19,705**
Cash flows from (used in) investing activities			
Purchase of premises and equipment		(17,890)	(28,882)
Proceeds from sale of premises and equipment		579	5
Purchase of intangible assets		(2,859)	(8,727)
Loan issued		(3,177)	(469)
Proceeds from repayment of loan issued		1,193	3
Net placement (withdrawal) of bank deposits		(7,106)	2,664
Purchase of available-for-sale assets		–	(437)
Proceeds from available-for-sale assets		1,172	326
Net cash flows used in investing activities		**(28,088)**	**(35,517)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	19	5,000	–
Capital contribution by minority shareholders		116	–
Contributions under share-based payment plan		(927)	–
Dividend paid	19	(12,034)	(10,000)
Proceeds from borrowings	23	39,888	36,868
Repayment of borrowings	23	(29,526)	(3,838)
Repayment of lease liabilities	24	(1,141)	–
Net cash flows from (used in) financing activities		**1,376**	**23,030**
Effect of exchange rates changes on cash and cash equivalents		(429)	(72)
Net increase (decrease) in cash and cash equivalents		**(7,782)**	**7,146**
Cash and cash equivalents, 1 January	6	11,332	4,186
Cash and cash equivalents, 31 December	6	**3,550**	**11,332**

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

(Thousands of Georgian lari unless otherwise stated)

1. Principal activities

JSC A Group (the “Company”) (ID: 405291795) was registered by LEPL National Agency of Public Registry of Ministry of Justice of Georgia on 20 September 2018, under the laws of Georgia.

In 2018 JSC Insurance company Aldagi (“Aldagi”) (ID: 404476189) and its subsidiaries (“Aldagi Group”) conducted a reorganisation (the “reorganisation”) that aimed to align the group structure with the Group’s respective business segments, being property and casualty insurance and periodic vehicle technical inspection. On 11 October 2018, the shareholder of Aldagi – JSC Georgia Capital (“the Parent”) – transferred its 100% interest in Aldagi to the Company in exchange for Company’s issue of shares with nominal value of GEL 1,023 (Note 19). On 16 October 2018, Aldagi disposed of its 100% interest in JSC Greenway Georgia (“Greenway”) (ID: 404867006) to the Company.

Following completion of the reorganisation, JSC A Group mainly operates through its two wholly-owned subsidiaries: Aldagi and Greenway. Aldagi possesses two types of insurance licences issued by the Insurance State Supervision Service of Georgia (ISSSG) for life and non-life insurance products, as well as a licence to act as a pension fund. It offers various life and non-life insurance services and insurance products relating to property, liability, and others in Georgia. Greenway obtained a license from Ministry of Economy and Sustainable Development of Georgia to operate in periodic vehicle technical inspections business and is constructing car inspection lines across Georgia, with the purpose to start mandatory vehicle inspections effective from 1 January 2019.

The Company’s legal address is 1, Berbuki street, 0171 Tbilisi, Georgia.

Pursuant to the reorganisation, the consolidated financial statements of the Company include (together representing the “A Group” or the “Group”):

	Ownership/voting				
Subsidiary	***31 December 2019***	***31 December 2018***	***Date of incorporation***	***Industry***	***Date of acquisition***
Insurance Company Aldagi, JSC	100%	100%	11 August 1998	Insurance	16 October 2018
Greenway Georgia, JSC	100%	100%	9 July 2010	Periodic Technical Inspection	16 October 2018
JSC Insurance Company Tao	100%	100%	22 August 2007	Insurance	1 May 2015
JSC Carfest (2018: JSC Uno Leasing)	100%	100%	17 November 2017	Car trading	n/a
Auto Way, LLC	100%	100%	27 December 2010	Services	30 April 2012
Aliance, LLC	100%	100%	1 August 1998	Other	30 April 2012
GreenWash, LLC	75%	75%	31 August 2018	Car wash	n/a

Aldagi is a founder of a non-profit (non-commercial) legal entity Compulsory Insurance Center (“the Center”) established in accordance with the legislation of Georgia for the management of compulsory insurance by the 17 insurers participating in the insurance system. In accordance with the legislation, upon entry of the foreign-registered vehicle into the territory of Georgia, the owner/driver of the vehicle shall be obliged to provide third party liability insurance for its vehicle during his/her stay in Georgia. The Center’s place of operation is Georgia and its purpose is to administer sales and claims settlement processes related to compulsory insurance. The Group has 11.76% (31 December 2018: 12.5%) participating share held in the Center, through which it participates in joint insurance of third party liability for drivers of the foreign-registered vehicles and recognizes the respective assets, liabilities, income and expenses based on its interest in the Center.

As at 31 December 2019 ultimate parent of the Group is Georgia Capital plc (2018: Georgia Capital plc), which obtained control over the Group as a result of demerger of BGEO Group plc into banking sector (Bank of Georgia Group plc) and investment sector (Georgia Capital plc). Georgia Capital plc is incorporated in the United Kingdom and listed on the London Stock Exchange.

2. Basis of preparation

General

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These consolidated financial statements are presented in thousands of Georgian lari (“GEL”), unless otherwise indicated. The Group presents its consolidated statement of financial position broadly in order of liquidity.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies

Adoption of new or revised standards and interpretations and changes in accounting policies and disclosures

IFRS 16 Leases

The Group applies, for the first time IFRS 16 *Leases*. The nature and effect of these changes are disclosed below.

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

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

	1 January 2019
Assets	
Right-of-use assets	2,852
Prepayments (included in other assets)	(261)
Liabilities	
Lease liabilities	2,591

The difference between the operating lease commitments as at 31 December 2018 (Note 26) and lease liabilities as of 1 January 2019 represents the effect of discounting of the lease payments using the incremental borrowing rate.

Incremental borrowing rate for the leases denominated in USD and GEL amounted to 7% and 11%, respectively.

The adoption of IFRS 16 had no impact on shareholder equity.

The adoption of IFRS 16 had following impact on the consolidated income statement of the Group for 2019:

Occupancy and rent (included in general and administrative expenses)	(1,586)
Depreciation and amortization	1,254
Operating profit	**(332)**
Interest expense	344
Foreign exchange losses	320
Net profit and total comprehensive income	**332**

<u>*Nature of the effect of adoption of IFRS 16*</u>

The Group has lease contracts for lands and buildings. Before the adoption of IFRS 16, none of the leases were determined to be economically similar to purchasing the underlying asset and, therefore, all the leases were classified as operating leases and not reported on a company's balance sheet (they were 'off balance sheet leases'). Off balance sheet leases were accounted for similarly to service contracts, with the company reporting a rental expense in the income statement. Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets as described below. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations and changes in accounting policies and disclosures (continued)

Leases previously accounted for as operating leases

The Group recognised a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. Lease liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. A right-of-use asset was recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to the lease of vehicles and equipment across the Group, exemption will not be applied to the lease of real estate. The Group will apply low value lease exemption to its low value leases such as computers and furniture (assets with a value, when new, of US$5,000 or less). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Adoption of new or revised standards and interpretations and changes in accounting policies and disclosures (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Together with IFRS 16, the Group applied for the first time the following amendments and interpretations that do not have any impact on the consolidated financial statements of the Group:

- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Annual improvements 2015-2017 cycle.

Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Business combinations, including common control business combinations, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in other operating expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Joint operations

For joint operations, the Group recognises in relation to its interest its:

- Assets, including its share of any assets held jointly;
- Liabilities including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation;
- Expenses, including its share of any expenses incurred jointly.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss (for common control business combinations the gain is recognised as equity contribution).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised based upon insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of profit or loss.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Insurance and reinsurance receivables (continued)

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all ceded share of technical provisions when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

Gross technical provisions

Gross technical provisions include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiry date of each insurance policy. The Group reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims. The differences between the unearned premium reserves, loss provisions and as well as the expected claims are recognised in the consolidated statement of comprehensive income by setting up a provision for premium deficiency.

Ceded share of technical provisions

The Group cedes insurance risk in the normal course of business for all of its businesses. Ceded share of technical provisions represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the consolidated statement of comprehensive income. The reinsurers' share of each unexpired risk provision is recognised on the same basis. Ceded share of technical provisions are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognised as an expense when incurred. Acquisition costs deferred consist of commissions to sales agents and brokerage companies assisting in policy issuance.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and bank deposits that mature within three months from the date of origination and are free from contractual encumbrances.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss is a financial asset that is either:

- Classified as held for trading; or
- Upon initial recognition it is designated by the entity as at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value. After initial recognition, subsequent gains or losses arising from changes in fair value are recognised in profit or loss until the investment is derecognised or until the investment is determined to be impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost using the effective interest method. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Regress and other receivables are recognised at their original invoiced value. Where the time value of money is material, receivables are carried at amortized cost.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of comprehensive income. However, interest calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Allowances for impairment of loans and receivables

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of comprehensive income.

Assets carried at amortized cost

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Allowances for impairment of loans and receivables (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of comprehensive income.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Fair value measurement

The Group measures financial instruments, such as derivatives and certain non-financial assets such as office buildings, investment property, at fair value at the end of each reporting period. Fair values of financial instruments measured at amortised cost are disclosed in Note 38.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the statement of comprehensive income within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of comprehensive income and presented as net gains or losses from revaluation of investment properties.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated statement of comprehensive income as an expense.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings	50
Furniture and fixtures	5-10
Computers and equipment	5-15
Motor vehicles	5

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognised.

Assets under construction comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable and fixed overheads that have been incurred during the construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are available for use.

Pension fund assets and liabilities

The Group provides management and employees of the Group, management and employees of the former parent of the Group, BGEO Group plc and its entities, management and employees of the parent of the Group and other Georgia Capital plc entities and Group non-related broad client base with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions from its employees as well as employees of other clients. When a client reaches the pension age, aggregated contributions, plus any income earned on the employee's behalf are paid to the employee according to the schedule agreed with the client. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. In case of leaving the occupied position, the client is entitled to accumulated contributions in form of a lump sum.

The Group holds the licence to act as a pension fund. Under this licence the Group is authorized to receive pension contribution from the population of Georgia, with obligation to repay contributions plus earnings.

Assets and liabilities of the Fund are accounted for within Pension fund assets and Pension fund liabilities. Pension fund assets and Pension fund liabilities are measured under IAS 39 at amortized cost or fair value, depending on classification made at initial recognition. The Group does not guarantee any investment income to the participants of the investment plan.

Borrowings

Borrowings are initially recognised at fair value plus directly attributable transaction costs.

After initial recognition, these are measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of the future results.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations in force in Georgia.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (applicable to undistributed profits) that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Georgia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions and contingent liabilities

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

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Share-based payment transactions

Top and middle management of the Group receive share-based remuneration settled in equity instruments of the Group, JSC Insurance Company Aldagi and Group's ultimate parent, Georgia Capital plc.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date based on market. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in employee benefits expense.

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value of shares at the grant date. The cost of equity settled transactions is recognised together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification. Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Income and expense recognition

Premium written

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Insurance premiums written reflect business incepted during the year, are shown before deduction of commission and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on monthly pro rata basis.

Premiums ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Income and expense recognition (continued)

Provision for unearned premiums

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated statement of comprehensive income in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Benefits and claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include any part of the general administrative costs directly attributable to the claims function.

Car service revenue

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The transfer occurs when the customer obtains control. Periodic technical inspection revenue is recognised at net of sales-based taxes at a point in time when car inspection service is rendered. The Group recognises revenue on the sale of motor vehicles when they have been supplied to customer.

Cost of car service

Cost of car service includes all the costs directly involved in delivering a service. These costs include direct labour salaries, direct materials and overhead costs directly associated with rendering the service.

Foreign currency translation

The consolidated financial statements are presented in Georgian lari, which is the Company's and its subsidiaries functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian lari at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of comprehensive income as foreign exchange gains/(losses).

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in foreign exchange losses. The official NBG exchange rates at 31 December 2019 and 31 December 2018 were 2.8677 and 2.6766 Georgian lari to 1 US dollar, respectively.

Derivative financial instruments

As part of its risk management strategy, the Group uses foreign exchange contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are initially recognised and are subsequently measured at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of comprehensive income in foreign exchange losses.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements which may have impact on the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of comprehensive income, but are recognised directly on the balance sheet;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense;
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see below). The Group is currently assessing the impact.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The group has decided to defer the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (see above).

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 3 Defiition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

4. Significant accounting judgments, estimates and assumptions

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Claims liability arising from insurance contracts

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

Estimates have to be made jointly for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. General insurance claims provisions are not discounted for the time value of money.

The ultimate cost of reserves is estimated by using a Chain ladder method. The main assumption underlying this technique is that a Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed monthly development of past year and expected loss ratios.

The carrying value of insurance claims provisions as at 31 December 2019 was GEL 65,114 (2018: GEL 13,552). For more details on insurance claims provisions please refer to Note 20.

Allowance for impairment of insurance receivables and reinsurance receivables

The Group regularly reviews its insurance and reinsurance receivables to assess impairment. For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment. The amount of allowance is reduced by an amount of debt that the Group has adequate reasons to believe will be recovered. Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. The carrying amount of allowance on insurance and reinsurance receivables as at 31 December 2019 was GEL 6,171 (2018: GEL 5,487). For further details on allowance for impairment of insurance receivables and reinsurance receivables are disclosed in Note 9 and 17.

(Thousands of Georgian lari unless otherwise stated)

5. Segment information

For management purposes, the Group is organised into two operating segments based on the industries as follows: P&C insurance, principally providing wide-scale property and casualty insurance services to corporate and individual clients, and auto service, principally providing vehicle technical inspection services and selling cars to corporate and individual clients. Management monitors the operating results of its segments separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured in the same manner as profit or loss in the consolidated financial statements. Transactions between segments are accounted for at actual transaction prices.

The Group discloses segment information on voluntary basis.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue for the period ended 31 December 2019 and 2018

(Thousands of Georgian lari unless otherwise stated)

5. Segment information (continued)

The following table presents asset and liability information regarding the Group's operating segments as at 31 December 2019 and 31 December 2018, respectively:

	31 December 2019				*31 December 2018*			
	P&C Insurance	***Auto service***	***Inter-business eliminations/ consolidations***	***Group total***	***P&C Insurance***	***Auto service***	***Inter-business eliminations/ consolidations***	***Group total***
Assets								
Cash and cash equivalents	3,421	129	–	**3,550**	11,104	228	–	**11,332**
Bank deposits	32,574	–	–	**32,574**	23,456	–	–	**23,456**
Available-for-sale financial assets	6,728	–	–	**6,728**	4,408	–	–	**4,408**
Equity investments at fair value	381	–	–	**381**	–	–	–	**–**
Insurance and reinsurance receivables	36,730	–	(626)	**36,104**	31,976	–	(534)	**31,442**
Loan issued	9,250	–	(7,196)	**2,054**	4,391	33	(4,391)	**33**
Ceded share of technical provisions	64,706	–	(34)	**64,672**	16,976	–	(48)	**16,928**
Current income tax assets	760	–	–	**760**	–	–	–	**–**
Deferred income tax assets	1,111	–	–	**1,111**	1,196	–	–	**1,196**
Deferred acquisition costs	3,812	–	–	**3,812**	3,324	–	–	**3,324**
Investment property	4,754	–	–	**4,754**	4,719	–	–	**4,719**
Property and equipment	7,748	40,695	(304)	**48,139**	7,312	29,838	(234)	**36,916**
Right-of-use assets	3,322	2,147	(62)	**5,407**	–	–	–	**–**
Goodwill and other intangible assets	16,442	8,202	(79)	**24,565**	15,345	8,002	(61)	**23,286**
Pension fund assets	4,868	–	–	**4,868**	18,932	–	–	**18,932**
Other assets	3,585	6,372	(554)	**9,403**	3,188	3,292	–	**6,480**
Total assets	**200,192**	**57,545**	**(8,855)**	**248,882**	**146,327**	**41,393**	**(5,268)**	**182,452**
Equity								
Share capital	1,023	90	–	1,113	1,023	–	–	**1,023**
Additional paid-in capital	8,334	4,910	–	13,244	8,153	–	–	**8,153**
Retained earnings	53,123	(7,238)	(382)	45,503	46,832	(1,326)	(295)	**45,211**
Equity attributable to holders of the parent	**62,480**	**(2,238)**	**(382)**	**59,860**	**56,008**	**(1,326)**	**(295)**	**54,387**
Non-controlling interests	–	98	–	**98**	–	–	–	–
Total equity	**62,480**	**(2,140)**	**(382)**	**59,958**	**56,008**	**(1,326)**	**(295)**	**54,387**
Liabilities								
Gross technical provisions	100,885	–	(95)	**100,790**	45,797	–	(134)	**45,663**
Other insurance liabilities	17,631	–	(41)	**17,590**	17,701	–	(98)	**17,603**
Current income tax liabilities	376	–	–	**376**	603	–	–	**603**
Borrowings	–	51,773	(7,196)	**44,577**	–	38,095	(4,391)	**33,704**
Lease liabilities	3,151	2,394	(115)	**5,430**	–	–	–	**–**
Pension fund liabilities	4,868	–	–	**4,868**	18,932	–	–	**18,932**
Other liabilities	10,801	5,518	(1,026)	**15,293**	7,286	4,624	(350)	**11,560**
Total liabilities	**137,712**	**59,685**	**(8,473)**	**188,924**	**90,319**	**42,719**	**(4,973)**	**128,065**
Total equity and liabilities	**200,192**	**57,545**	**(8,855)**	**248,882**	**146,327**	**41,393**	**(5,268)**	**182,452**

(Thousands of Georgian lari unless otherwise stated)

5. Segment information (continued)

The following table presents consolidated statement of comprehensive income for the year ended 31 December:

	2019				2018			
	P&C Insurance	*Auto service*	*Inter-business eliminations/ consolidations*	*Group total*	*P&C Insurance*	*Auto service*	*Inter-business eliminations/ consolidations*	*Group total*
Gross earned premiums on insurance contracts	98,350	–	(189)	**98,161**	90,404	–	–	**90,404**
Reinsurers' share of earned premiums on insurance contracts	(23,011)	–	5	**(23,006)**	(22,914)	–	–	**(22,914)**
Net insurance revenue	**75,339**	**–**	**(184)**	**75,155**	**67,490**	**–**	**–**	**67,490**
Gross insurance claims expenses	(89,903)	–	1	**(89,902)**	(29,990)	–	–	**(29,990)**
Reinsurer's share of insurance claims expenses	57,322	–	(1)	**57,321**	2,768	–	–	**2,768**
Claim settlement expenses	(1,703)	–	–	**(1,703)**	(1,280)	–	–	**(1,280)**
Income from regress and salvages	2,974	–	–	**2,974**	2,753	–	–	**2,753**
Net insurance claims and claims handling expenses	**(31,310)**	**–**	**–**	**(31,310)**	**(25,749)**	**–**	**–**	**(25,749)**
Acquisition costs, net of reinsurance	(12,212)	–	14	**(12,198)**	(9,520)	–	–	**(9,520)**
Net underwriting profit	**31,817**	**–**	**(170)**	**31,647**	**32,221**	**–**	**–**	**32,221**
Car service revenue	–	14,476	(14)	**14,462**	–	–	–	**–**
Cost of car service	–	(5,831)	–	**(5,831)**	–	–	–	**–**
Gross car Service profit	**–**	**8,645**	**(14)**	**8,631**	**–**	**–**	**–**	**–**
Investment income	7,640	24	(741)	**6,923**	3,536	–	(295)	**3,241**
Pension fund asset management fee	129	–	–	**129**	449	–	–	**449**
Investment profit	**7,769**	**24**	**(741)**	**7,052**	**3,985**	**–**	**(295)**	**3,690**
Salaries and other employee benefits	(11,385)	(2,834)	8	**(14,211)**	(9,867)	(611)	–	**(10,478)**
General and administrative expenses	(5,239)	(3,256)	185	**(8,310)**	(4,044)	(708)	–	**(4,752)**
Depreciation and amortization expenses	(2,174)	(2,417)	44	**(4,547)**	(1,023)	(2)	–	**(1,025)**
Impairment charge	(478)	–	–	**(478)**	(1,536)	–	–	**(1,536)**
Net other operating income	932	48	(54)	**926**	849	(77)	–	**772**
Other expenses	**(18,344)**	**(8,459)**	**183**	**(26,620)**	**(15,621)**	**(1,398)**	**–**	**(17,019)**
Operating profit	**21,242**	**210**	**(742)**	**20,710**	**20,585**	**(1,398)**	**(295)**	**18,892**
Foreign exchange (losses)/ gains	(39)	(702)	(1)	**(742)**	139	88	–	**227**
Interest expense	(208)	(5,123)	656	**(4,675)**	–	(39)	–	**(39)**
Net non-recurring items	–	(315)	–	**(315)**	(652)	23	–	**(629)**
Pre-tax profit	**20,995**	**(5,930)**	**(87)**	**14,978**	**20,072**	**(1,326)**	**(295)**	**18,451**
Income tax expense	(2,670)	–	–	**(2,670)**	(2,990)	–	–	**(2,990)**
Net profit and total comprehensive income	**18,325**	**(5,930)**	**(87)**	**12,308**	**17,082**	**(1,326)**	**(295)**	**15,461**
Attributable to:								
Equity holders of the parent	18,325	(5,912)	(87)	**12,326**	17,082	(1,326)	(295)	**15,461**
Non-controlling interests	–	(18)	–	**(18)**	–	–	–	**–**

(Thousands of Georgian lari unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents as of 31 December comprise:

	2019	*2018*
Cash on hand	8	32
Current accounts	3,542	11,300
Total cash and cash equivalents	**3,550**	**11,332**

As of 31 December 2019 cash and cash equivalents of 100% owned subsidiary JSC Insurance Company Aldagi on stand-alone basis comprise GEL 2,778 (2018: GEL 10,339). The ISSSG requirement is to maintain minimum level of cash and cash equivalents at 10% of the technical provisions subject to reservation as defined by ISSSG regulatory reserve requirement resolution, which as of the reporting date amounts to GEL 1,868 (2018: GEL 3,098). Pension fund cash and cash equivalents which comprise GEL 294 (2018: GEL 3,314) (Note 16) are also eligible in minimum level requirements.

7. Bank deposits

Bank deposits as of 31 December comprise:

	2019	*2018*
JSC Bank of Georgia	20,436	12,558
JSC TBC Bank	4,832	3,810
JSC Finca Bank	2,542	1,744
JSC Credo Bank	2,319	–
JSC Tera Bank	1,094	2,083
JSC Liberty Bank	742	2,163
JSC Halyk Bank	609	549
JSC VTB Bank	–	549
Total bank deposits	**32,574**	**23,456**

Bank deposits are represented by short-term (for 3 to 12 months) and medium-term placements with Georgian banks and earn annual interest of 10.15% to 12.35% (2018: 9.0% to 12.5%).

8. Available-for-sale financial assets

Available-for-sale financial assets as of 31 December 2019 comprise:

2019	*Carrying value*	*Currency*	*Type of the security*	*Maturity*	*Nominal rate*
JSC Bank of Georgia	3,028	GEL	Bond	June 2020	11.0%
JSC M2 Real Estate	919	USD	Bond	October 2022	7.5%
JSC Microfinance Organization Swiss Capital	757	GEL	Promissory note	June 2020; August 2020; September 2020	13.00%
JSC Microfinance Organization Swiss Capital	520	GEL	Bond	September 2021	12.75%
JSC Microfinance Organization Swiss Capital	115	USD	Promissory note	June 2021	10.00%
JSC TBC Capital	574	USD	Bond	June 2024	5.75%
JSC TBC Capital	306	GEL	Bond	April 2022	10.75%
JSC Microfinance Organization Crystal	509	GEL	Bond	February 2021	10.50%
Total available-for-sale financial assets	**6,728**				

(Thousands of Georgian lari unless otherwise stated)

8. Available-for-sale financial assets (continued)

Available-for-sale financial assets as of 31 December 2018 comprise:

2018	*Carrying value*	*Currency*	*Type of the security*	*Maturity*	*Nominal rate*
JSC Bank of Georgia	3,028	GEL	Bond	June 2020	11.0%
JSC M2 Real Estate	828	USD	Bond	October 2019	7.5%
JSC Microfinance Organization Swiss Capital	352	GEL	Promissory note	June 2019; September 2019	13.0%
JSC Microfinance Organization Crystal	200	GEL	Bond	June 2019; December 2019	11.75%
Total available-for-sale financial assets	**4,408**				

9. Insurance and reinsurance receivables

Insurance and reinsurance receivables as of 31 December comprise:

	2019	*2018*
Due from policyholders	39,555	34,927
Due from reinsurers	2,720	2,002
	42,275	**36,929**
Less – allowance for impairment for amounts due from policyholders (Note 17)	(6,171)	(5,487)
Total insurance and reinsurance receivables	**36,104**	**31,442**

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

10. Taxation

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date was initially set at 1 January 2019. On 5 May 2018 the effective date of the amendment for financial institutions was revised to 1 January 2023. Under the new regulation, corporate income tax will be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

Following the enactment of the latest amendment, the Group recalculated deferred tax assets for its insurance companies at 31 December 2018, remeasured the deferred tax assets and liabilities for the periods after 1 January 2023 and made the relevant recognition of deferred tax benefit in the profit and loss statement for 2018. As IAS 12 *Income Taxes* requires, the Group used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realized or settled in the periods when the new regulation becomes effective.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2017 or 1 January 2023, as applicable. Tax law amendments related to such deemed profit distribution did not have any effect on the Group's financial statements for the year ended 31 December 2019 and 2018 .

The corporate income tax expenses comprise:

	2019	*2018*
Current tax charge	2,585	3,308
Deferred tax (benefit)/charge – origination and reversal of temporary differences	85	(318)
Income tax expense	**2,670**	**2,990**

(Thousands of Georgian lari unless otherwise stated)

10. Taxation (continued)

Georgian legal entities must file individual tax declarations. For the Group's entities operating under the new taxation regime, applicable tax rate for undistributed profit was nil (2018: nil), whereas corporate tax rate for insurance companies was 15% for 2019 (2018: 15%). The effective income tax rate differs from the statutory income tax rates. As of 31 December a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2019	*2018*
Income before tax	**14,978**	**18,451**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**2,247**	**2,768**
Effect of changes in tax legislation	–	(318)
Non-deductible expenses	423	540
Income tax expense	**2,670**	**2,990**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

Tax effect of deductible temporary differences	***As at 31 December 2017***	***In profit or loss***	***As at 31 December 2018***	***In profit or loss***	***As at 31 December 2019***
Insurance receivables	356	201	557	(87)	470
Other assets	435	117	552	2	554
Investments	87	–	87	–	87
Deferred tax assets	**878**	**318**	**1,196**	**(85)**	**1,111**

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

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), together with others. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. The Group's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Group could have a material impact on the Group's operations or its financial position in Georgia.

11. Loans Issued

Loans issued as of 31 December comprise

	2019	*2018*
LLC MotorStar	2,054	–
LLC New Estate	–	33
Total loans issued	**2,054**	**33**

In July 2019 the Group issued loan to LLC MotorStar (a subsidiary of Georgia Capital plc) at the interest rate of 12%. Principal amount of GEL 2,000 is to be repaid by the end of February 2020. Interest income on the loans issued by the Group are disclosed in Note 32.

(Thousands of Georgian lari unless otherwise stated)

12. Deferred acquisition costs

Deferred acquisition costs ("DAC") on direct, assumed and ceded reinsurance are as follows:

	DAC
As at 31 December 2017	**2,916**
Expenses deferred (Note 29)	2,906
Amortization (Note 29)	(2,498)
At 31 December 2018	**3,324**
Expenses deferred (Note 29)	3,985
Amortization (Note 29)	(3,497)
At 31 December 2019	**3,812**

13. Investment property

	Investment property
31 December 2017	**845**
Additions	3,874
31 December 2018	**4,719**
Additions	338
Disposal	(845)
Net gain from revaluation of investment property (Note 35)	542
31 December 2019	**4,754**

Investment property is stated at fair value equalling GEL 4,754 as at 31 December 2019 (2018: 4,719). The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 10 October 2019 and was carried out by professional valuator.

In October 2019 the Group disposed of its investment property with the fair value amounting to GEL 845 which resulted in loss on disposal of GEL 350 (Note 35).

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Refer to Note 38 for details on fair value measurements of investment property.

(Thousands of Georgian lari unless otherwise stated)

14. Property and equipment

The movements in property and equipment were as follows:

	Notes	*Land and buildings*	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost								
31 December 2018		11,952	1,133	9,591	513	632	15,843	**39,664**
Additions		62	596	2,292	69	356	10,006	**13,381**
Disposals		(30)	(29)	(8)	(202)	(29)	–	**(298)**
Transfers		25,849	8	(8)	–	–	(25,849)	**–**
31 December 2019		**37,833**	**1,708**	**11,867**	**380**	**959**	**–**	**52,747**
Accumulated depreciation								
31 December 2018		748	613	1,129	214	44	–	**2,748**
Depreciation charge		615	137	1,055	103	68	–	**1,978**
Disposals		–	(5)	(3)	(110)	–	–	**(118)**
31 December 2019		**1,363**	**745**	**2,181**	**207**	**112**	**–**	**4,608**
Net book value								
31 December 2018		**11,204**	**520**	**8,462**	**299**	**588**	**15,843**	**36,916**
31 December 2019		**36,470**	**963**	**9,686**	**173**	**847**	**–**	**48,139**

	Notes	*Land and buildings*	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost								
31 December 2018		9,465	969	1,454	484	596	–	**12,968**
Additions		6,362	167	8,145	65	36	15,843	**30,618**
Disposals		(1)	(3)	(8)	(36)	–	–	**(48)**
Transfers to investment property		(3,874)	–	–	–	–	–	**(3,874)**
31 December 2019		**11,952**	**1,133**	**9,591**	**513**	**632**	**15,843**	**39,664**
Accumulated depreciation								
31 December 2018		720	539	934	123	25	–	**2,341**
Depreciation charge		125	76	198	97	19	–	**515**
Disposals		(97)	(2)	(3)	(6)	–	–	**(108)**
31 December 2019		**748**	**613**	**1,129**	**214**	**44**	**–**	**2,748**
Net book value								
31 December 2018		**8,745**	**430**	**520**	**361**	**571**	**–**	**10,627**
31 December 2019		**11,204**	**520**	**8,462**	**299**	**588**	**15,843**	**36,916**

Property and equipment amounting to GEL 39,022 is pledged as collateral as at 31 December 2019 (2018: GEL 22,410).

(Thousands of Georgian lari unless otherwise stated)

15. Goodwill and other intangible assets

The movements in goodwill and other intangible assets were as follows:

	Goodwill	*Licenses*	*Computer software*	*Total*
Cost				
31 December 2017	13,063	1,526	1,320	**15,909**
Additions	–	7,267	2,194	**9,461**
31 December 2018	**13,063**	**8,793**	**3,514**	**25,370**
Additions	–	496	2,098	**2,594**
31 December 2019	**13,063**	**9,289**	**5,612**	**27,964**
Accumulated amortization and impairment				
31 December 2017	**–**	**618**	**956**	**1,574**
Amortization charge	–	367	143	**510**
31 December 2018	**–**	**985**	**1,099**	**2,084**
Amortization charge	–	1,002	313	**1,315**
31 December 2019	**–**	**1,987**	**1,412**	**3,399**
Net book value				
31 December 2018	**13,063**	**7,808**	**2,415**	**23,286**
31 December 2019	**13,063**	**7,302**	**4,200**	**24,565**

The recoverable amount of the total cash-generating unit has been determined based on a value-in-use calculation. The Group used cash flow projections based on financial budget approved by senior management covering from a one to three-year period.

As at 31 December 2019, goodwill is fully attributable to Aldagi Group (property and casualty insurance) cash-generating unit. The recoverable amount of cash generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will steadily grow and the cash flows will be stable. The discount rate applied to cash flow projections is the pre-tax weighted average cost of capital ("WACC") of the cash-generating unit. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year period covered in financial budgets. Effective annual growth rate in three-year financial budgets is 8.4% (2018: 16.3%). For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating unit. Discount rate applied to the cash flow projections is 14.5% (2018: 15.2%).

Reasonably possible changes in key assumptions (-5 p.p. decrease in effective annual growth rate in the three-years budgets and +2 p.p. increase in discounting rate) would not have resulted in goodwill impairment as at 31 December 2019, 2018.

On 29 June 2018, the Group obtained a license through its wholly-owned subsidiary JSC Greenway Georgia to establish and operate periodic vehicle technical inspection centers for the term of 10 years at the cost of GEL 6,727.

16. Pension fund assets and liabilities

The Group operates private pension fund through its wholly-owned subsidiary, JSC Insurance Company Aldagi. Contributions made by employees of JSC Insurance Company Aldagi and other individuals are recorded as an accumulated pension liability to be repaid to the pension plan clients after pension age. Also, any income earned on this accumulated pension liability on behalf of the insured individuals will be accumulated and added to the pension benefit obligation. When an employee reaches pension age, aggregated contributions, plus any earnings earned on the employee's behalf are returned to the employee according to the schedule agreed with the employee.

Having collected funds from individuals, JSC Insurance Company Aldagi conducts investment activities on behalf of these individuals in order to receive additional profit on accumulated amounts. The total net accumulated amount of a single member of the pension plan equals the total net contributions made by him/her, plus any net investment income generated by the funds. According to the current arrangement of the plan, the pension age for men and women is 65 and 60 years, respectively.

(Thousands of Georgian lari unless otherwise stated)

16. Pension fund assets and liabilities (continued)

As of 31 December pension fund liabilities consisted of:

	2019	*2018*
Total net contributions to the pension fund	(4,261)	10,656
Total net income earned on net pension fund contributions	9,129	8,276
Pension fund liabilities	**4,868**	**18,932**

The movement of pension fund liabilities during 2019 and 2018 was as follows:

	2019	*2018*
Pension fund liabilities as of 1 January	**18,932**	**18,536**
Total pension fund instalments during the year	431	3,493
Administration commission	(19)	(42)
Management commission	(80)	(251)
Investment income commission	(29)	(150)
Membership commission	–	(6)
Net income (net of physical persons income tax)	982	1,892
Funds withdrawn by Participants	(15,349)	(4,540)
Total accumulated pension fund during the year	**(14,064)**	**396**
Pension fund liabilities as of 31 December	**4,868**	**18,932**

Pension fund assets as of 31 December consist mainly of cash at bank and deposits with local commercial banks:

	2019	*2018*
Bank deposits	3,259	14,029
Available-for-sale financial assets	1,315	1,589
Cash at bank	294	3,314
Pension fund assets	**4,868**	**18,932**

JSC Insurance Company Aldagi did not contribute any amount for the year ended 31 December 2019 (2018: GEL 89) to its employees' defined contribution pension plan due to enactment of the State Pension Plan of Georgia.

17. Allowances for impairment and provisions

The movements in the allowance for insurance and reinsurance receivables were as follows:

	Insurance and reinsurance receivables (Note 9)
31 December 2017	**3,836**
Charge	1,536
Write-off	(17)
Currency translation difference	132
31 December 2018	**5,487**
Charge	478
Write-off	(40)
Currency translation difference	246
31 December 2019	**6,171**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

(Thousands of Georgian lari unless otherwise stated)

18. Other assets

Other assets as of 31 December comprise:

	2019	*2018*
Advances and prepayments	4,141	4,283
Trade receivables	1,609	557
Prepaid operating taxes	1,584	140
Inventory	919	291
Assets transferred through subrogation	656	514
Receivables from regression	183	108
Other	311	587
Total other assets	**9,403**	**6,480**

19. Equity

Share capital

As of 31 December 2019 the number of authorized ordinary shares of the Company was 10,000,000 (2018: 10,000,000) with a nominal value per share of one Georgian lari.

1,112,549 (31 December 2018: 1,022,600) authorized shares have been issued to 100% shareholder of JSC A Group, JSC Georgia Capital (ID: 404549690), of which 89,949 ordinary shares were issued on 24 April 2019 in return for capital injection in the Group by 100% shareholder amounting to GEL 5,000.

In course of the Group reorganization in 2018 (Note 1), the Company issued 1,022,600 authorized shares to its 100% shareholder, JSC Georgia Capital, in exchange for the 100% interest in JSC Insurance Company Aldagi. The difference between GEL 1,023 nominal value of Company's shares issued, GEL 1,889 nominal value of Aldagi's share capital prior to reorganization and historic cost of investment in Aldagi in JSC Georgia Capital's accounts of GEL 10,225 resulted in increase in additional paid-in capital of GEL 866 recognized in the Group's consolidated statement of changes in equity.

The share capital of the Group was contributed by the shareholders in Georgian lari and they are entitled to dividends and any capital distribution in Georgian lari.

Dividends

On 26 June 2019, shareholder of JSC A Group made a decision to distribute 2018 dividends comprising Georgian lari 7.19 per share. Payment of the total GEL 8,000 annual dividends was received by the Shareholder on 28 June 2019.

On 23 December 2019, shareholder of JSC A Group made a decision to distribute 2019 interim dividends amounting to GEL 4,034.

On 25 June 2018, shareholder of JSC Insurance Company Aldagi made a decision to distribute 2017 and 2018 dividends comprising Georgian lari 4.234 and 1.058, respectively, per share. Payment of the total GEL 10,000 annual dividends was received by the shareholder on 29 June 2018.

(Thousands of Georgian lari unless otherwise stated)

20. Gross technical provisions and ceded share of technical provisions

Gross technical provisions and ceded share of technical provisions as of 31 December comprise:

	2019	*2018*
Gross technical provisions		
- Unearned premiums provision	35,676	32,111
- Provisions for claims outstanding	65,114	13,552
Total gross technical provisions	**100,790**	**45,663**
Ceded share of technical provisions		
- Reinsurers' share in unearned premiums provision	(7,886)	(8,453)
- Reinsurers' share in provisions for claims outstanding	(56,786)	(8,475)
Total ceded share of technical provisions	**(64,672)**	**(16,928)**
Technical provisions net of reinsurance		
- Unearned premiums provision	27,790	23,658
- Provisions for claims outstanding	8,328	5,077
Total technical provisions net of reinsurance	**36,118**	**28,735**

Technical provisions as of 31 December comprise:

		2019			*2018*		
	Notes	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*
Life insurance contracts	(a)	3,076	(176)	**2,900**	1,194	(139)	**1,055**
General insurance contracts	(b)	97,714*	(64,496)	**33,218**	44,469	(16,789)	**27,680**
Total gross technical provisions		**100,790**	**(64,672)**	**36,118**	**45,663**	**(16,928)**	**28,735**

* *Significant increase in gross technical provisions resulted from claims reported by an entity under common control (*a subsidiary of Georgia Capital plc*); The policy is 99% reinsured.*

(a) The movement during the year in life technical provisions is as follows.

		2019			*2018*		
	Notes	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*
At 1 January		**1,194**	**(139)**	**1,055**	**1,711**	**(476)**	**1,235**
Premiums written during the year	27	13,632	(179)	**13,453**	10,781	(194)	**10,587**
Premiums earned during the year		(13,569)	202	**(13,367)**	(10,615)	173	**(10,442)**
Claims incurred during the current accident year		7,968	(64)	**7,904**	3,789	221	**4,010**
Claims paid during the year	28	(6,149)	4	**(6,145)**	(4,472)	137	**(4,335)**
At 31 December		**3,076**	**(176)**	**2,900**	**1,194**	**(139)**	**1,055**

(b) General technical provisions may be analysed as follows. Provision for claims settlement expenses is included in the gross technical provisions.

		2019			*2018*		
	Notes	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*
Provisions for claims outstanding	(1)	62,420	(56,700)	**5,720**	12,678	(8,449)	**4,229**
Provision for unearned premiums	(2)	35,294	(7,796)	**27,498**	31,791	(8,340)	**23,451**
Total general technical provisions		**97,714**	**(64,496)**	**33,218**	**44,469**	**(16,789)**	**27,680**

(Thousands of Georgian lari unless otherwise stated)

20. Gross technical provisions and ceded share of technical provisions (continued)

(1) The provision for claims outstanding for general insurance contracts may be analyzed as follows:

		2019			2018		
	Notes	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*
At 1 January		**12,678**	**(8,449)**	**4,229**	**16,794**	**(13,556)**	**3,238**
Claims incurred during the current accident year		81,933	(57,256)	**24,677**	26,200	(2,990)	**23,210**
Claims paid during the year	28	(32,191)	9,005	**(23,186)**	(30,316)	8,097	**(22,219)**
At 31 December		**62,420**	**(56,700)**	**5,720**	**12,678**	**(8,449)**	**4,229**

(2) The provision for unearned premiums for general insurance contracts may be analyzed as follows:

		2019			2018		
	Notes	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*	*Gross technical provisions*	*Ceded share of technical provisions*	*Net*
At 1 January		**31,791**	**(8,340)**	**23,451**	**31,767**	**(6,639)**	**25,128**
Premiums written during the year	27	88,095	(22,260)	**65,835**	79,817	(24,446)	**55,371**
Premiums earned during the year		(84,592)	22,804	**(61,788)**	(79,793)	22,745	**(57,048)**
At 31 December		**35,294**	**(7,796)**	**27,498**	**31,791**	**(8,340)**	**23,451**

Gross technical provisions and ceded share of technical provisions − terms, assumptions and sensitivities

(a) Life insurance contracts

(1) Terms and conditions

Life insurance contracts offered by the Group only consist of annually or monthly renewable term conventional insurance contracts where lump sum benefits are payable on death.

(2) Key assumptions

Premiums for life insurance contracts are based on rates derived from mortality tables that are developed through actuarial research. These annually renewed insurance contracts only pay a lump sum benefit when the insured person dies within that year. At the reporting date, the pro rata premium for the policy year that is not yet earned, is deferred in the caption gross technical provisions.

(b) General insurance contracts

(1) Terms and conditions

The major classes of general insurance written by the Group include cargo, motor, compulsory third party liability for foreign-registered vehicles, household, property, freight forwarding liability, professional indemnity, financial risk and aviation. Risks under these policies usually cover twelve month duration.

For general insurance contracts, claims provisions are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

(Thousands of Georgian lari unless otherwise stated)

20. Gross technical provisions and ceded share of technical provisions (continued)

Gross technical provisions and ceded share of technical provisions − terms, assumptions and sensitivities (continued)

(2) Assumptions

For the calculation of the claim provisions, including the liability adequacy test, refer to Note 3 Summary of significant accounting policies, technical provisions and Note 4 Significant accounting judgements, estimates and assumptions.

Gross technical provisions on insurance business written in Georgia significantly depend on fluctuations in currency exchange rates as the insured values on these contracts are denominated in US dollars (see analysis of currency risk in the Note 37).

(3) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis.

The tables show the reserves for both claims reported and claims incurred but not yet reported and cumulative payments.

In the tables below, the claims estimates are translated into Lari at the rate of exchange that applied at the end of the accident year.

(Thousands of Georgian lari unless otherwise stated)

20. Gross technical provisions and ceded share of technical provisions (continued)

Gross technical provisions and ceded share of technical provisions − terms, assumptions and sensitivities (continued)

Before the effect of reinsurance, the loss development table is:

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*Total*
Accident year	8,771	7,428	16,301	13,058	16,406	31,128	27,926	43,667	29,019	89,080	–
One year later	8,702	7,653	14,048	12,570	15,817	30,186	27,077	44,481	29,331	–	–
Two years later	9,421	7,593	14,021	12,011	15,352	29,889	27,222	44,341	–	–	–
Three years later	9,399	7,556	14,019	12,161	14,986	29,843	27,869	–	–	–	–
Four years later	9,367	7,476	14,012	11,566	14,937	29,766	–	–	–	–	–
Five years later	9,544	7,476	14,012	11,567	14,941	–	–	–	–	–	–
Six years later	9,683	7,482	14,012	11,537	–	–	–	–	–	–	–
Seven years later	9,653	7,482	14,012	–	–	–	–	–	–	–	–
Eight years later	9,699	7,482	–	–	–	–	–	–	–	–	–
Nine years later	9,805	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims incurred	**9,805**	**7,482**	**14,012**	**11,537**	**14,941**	**29,766**	**27,869**	**44,341**	**29,331**	**89,080**	**278,164**
Accident year	(6,665)	(5,700)	(10,733)	(8,867)	(12,268)	(21,926)	(19,254)	(27,753)	(24,023)	(27,392)	–
One year later	(7,559)	(6,904)	(13,013)	(10,520)	(14,185)	(29,662)	(26,674)	(38,084)	(28,597)	–	–
Two years later	(7,887)	(7,441)	(13,937)	(11,463)	(14,467)	(29,766)	(26,996)	(43,807)	–	–	–
Three years later	(7,887)	(7,441)	(14,012)	(11,566)	(14,547)	(29,778)	(27,695)	–	–	–	–
Four years later	(8,220)	(7,441)	(14,012)	(11,566)	(14,546)	(29,766)	–	–	–	–	–
Five years later	(8,222)	(7,441)	(14,012)	(11,567)	(14,540)	–	–	–	–	–	–
Six years later	(8,222)	(7,441)	(14,012)	(11,537)	–	–	–	–	–	–	–
Seven years later	(8,222)	(7,482)	(14,012)	–	–	–	–	–	–	–	–
Eight years later	(8,222)	(7,482)	–	–	–	–	–	–	–	–	–
Nine years later	(8,222)	–	–	–	–	–	–	–	–	–	
Cumulative payments to date	**(8,222)**	**(7,482)**	**(14,012)**	**(11,537)**	**(14,540)**	**(29,766)**	**(27,695)**	**(43,807)**	**(28,597)**	**(27,392)**	**(213,050)**
Gross outstanding claims provision per the statement of financial position	**1,583**	**–**	**–**	**–**	**401**	**–**	**174**	**534**	**734**	**61,688**	**65,114**
Current estimation of surplus/(deficiency)	(1,034)	(54)	2,289	1,521	1,464	1,362	58	(674)	(313)		
% of surplus/(deficiency) of initial gross reserve	-11.78%	-0.73%	14.04%	11.65%	8.93%	4.37%	0.21%	-1.54%	-1.08%		

(Thousands of Georgian lari unless otherwise stated)

20. Gross technical provisions and ceded share of technical provisions (continued)

Gross technical provisions and ceded share of technical provisions − terms, assumptions and sensitivities (continued)

After the effect of reinsurance, the loss development table is:

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*Total*
Accident year	3,937	5,788	12,355	10,337	12,855	21,815	19,601	26,425	26,806	32,194	–
One year later	3,934	6,088	12,260	10,086	13,274	21,721	19,347	26,776	27,226	–	–
Two years later	4,506	6,132	12,253	10,190	13,103	21,479	19,452	26,857	–	–	–
Three years later	4,398	6,090	12,249	10,284	13,148	21,438	19,391	–	–	–	–
Four years later	4,346	6,090	12,242	10,285	13,088	21,423	–	–	–	–	–
Five years later	4,346	6,090	12,242	10,285	13,081	–	–	–	–	–	–
Six years later	4,346	6,096	12,242	10,255	–	–	–	–	–	–	–
Seven years later	4,346	6,096	12,242	–	–	–	–	–	–	–	–
Eight years later	4,346	6,096	–	–	–	–	–	–	–	–	–
Nine years later	4,346	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims incurred	**4,346**	**6,096**	**12,242**	**10,255**	**13,081**	**21,423**	**19,391**	**26,857**	**27,226**	**32,194**	**173,111**
Accident year	(3,037)	(5,055)	(9,865)	(8,172)	(10,963)	(17,669)	(15,439)	(22,347)	(22,174)	(24,855)	–
One year later	(3,869)	(5,979)	(11,896)	(9,806)	(12,745)	(21,327)	(19,172)	(26,425)	(26,497)	–	–
Two years later	(4,074)	(6,055)	(12,175)	(10,181)	(13,009)	(21,423)	(19,361)	(26,626)	–	–	–
Three years later	(4,013)	(6,055)	(12,242)	(10,284)	(13,088)	(21,435)	(19,362)	–	–	–	–
Four years later	(4,346)	(6,055)	(12,242)	(10,285)	(13,088)	(21,423)	–	–	–	–	–
Five years later	(4,346)	(6,055)	(12,242)	(10,285)	(13,081)	–	–	–	–	–	–
Six years later	(4,346)	(6,055)	(12,242)	(10,255)	–	–	–	–	–	–	–
Seven years later	(4,346)	(6,096)	(12,242)	–	–	–	–	–	–	–	–
Eight years later	(4,346)	(6,096)	–	–	–	–	–	–	–	–	–
Nine years later	(4,346)	–	–	–	–	–	–	–	–	–	–
Cumulative payments to date	**(4,346)**	**(6,096)**	**(12,242)**	**(10,255)**	**(13,081)**	**(21,423)**	**(19,362)**	**(26,626)**	**(26,497)**	**(24,855)**	**(164,783)**
Net outstanding claims provision per the statement of financial position	**–**	**–**	**–**	**–**	**–**	**–**	**29**	**231**	**729**	**7,339**	**8,328**
Current estimation of surplus/(deficiency)	(409)	(308)	114	82	(226)	392	210	(433)	(420)		
% of surplus/(deficiency) of initial gross reserve	-10.39%	-5.32%	0.92%	0.79%	-1.76%	1.80%	1.07%	-1.64%	-1.57%		

(Thousands of Georgian lari unless otherwise stated)

21. Right-of-use assets

The movements in right-of-use assets were as follows:

	Land	*Buildings*	*Total*
Cost			
1 January 2019 (Note 3)	2,323	529	2,852
Addition	875	2,934	3,809
31 December 2019	**3,198**	**3,463**	**6,661**
Accumulated depreciation			
1 January 2019	–	–	–
Depreciation charge	334	920	1,254
31 December 2019	**334**	**920**	**1,254**
Net book value as at 31 December 2019	**2,864**	**2,543**	**5,407**

22. Other insurance liabilities

Other insurance liabilities as of 31 December include:

	2019	*2018*
Reinsurance payables	15,474	15,090
Advances received	1,892	2,278
Claims payable	224	235
Other insurance liabilities	**17,590**	**17,603**

23. Borrowings

The Group's borrowings include loans taken from JSC Bank of Georgia at the fixed interest rate of 5.5% for the first 4 years and at the floating interest rate of 6M EURIBOR + 5.5% (but no less than 5.5%) for the remaining 5 years. Principal amount of GEL 41,153 is outstanding as at 31 December 2019 and is repayable within nine years. The remaining balance consists of the borrowings from JSC Georgia Capital, carrying interest rate of 12% and repayable within a year (note 39).

Reconciliation of liabilities arising from borrowing activities

	Bank loans	*Loans from related parties*	*Total*
31 December 2017	**–**	**–**	**–**
Loan withdrawals	20,400	16,468	36,868
Loan repayments	(70)	(3,768)	(3,838)
Interest accrual	29	645	674
31 December 2018	**20,359**	**13,345**	**33,704**
Loan withdrawals	39,888	–	39,888
Principal repayments	(19,226)	(10,300)	(29,526)
interest expense	3,767	782	4,549
Interest repayments	(3,701)	(500)	(4,201)
Forex loss/gain	163	–	163
31 December 2019	**41,250**	**3,327**	**44,577**

(Thousands of Georgian lari unless otherwise stated)

24. Lease liabilities

The movements in lease liabilities were as follows:

	Land	*Buildings*	*Total*
1 January 2019 (Note 3)	2,127	464	2,591
Addition	753	3,017	3,770
Interest expense on lease liabilities	176	168	344
Repayment of lease liabilities	(188)	(1,408)	(1,596)
Foreign exchange rate movements	136	185	321
31 December 2019	**3,004**	**2,426**	**5,430**

25. Other liabilities

Other liabilities as of 31 December comprise:

	2019	*2018*
Advances received	5,560	1,285
Accruals for employee compensation	3,477	2,966
Commission payable	3,403	2,441
Trade payables	1,934	23
Operating taxes payable	26	163
Other	893	4,682
Other liabilities	**15,293**	**11,560**

26. Commitments and contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group. Any legal actions or complaints related to insurance policies are taken into account when making assessment of respective technical provisions.

In 2019 Aldagi Group (the “Guarantor”) issued guarantees effective until 19 December 2020 to JSC Greenway Georgia (the “Principal”) amounting to GEL 1,500 (2018: GEL 1,500) which cover failure of the principal to comply with the terms and conditions of the agreements concluded with the Ministry of Economy and Sustainable Development of Georgia. To date, Aldagi Group has not received any calls on these guarantees.

In 2018 Aldagi Group (the “Guarantor”) issued guarantee to JSC Greenway Georgia (the “Principal”) amounting to GEL 5,100 to secure fulfilment of obligations undertaken by the principal before the Ministry of Economy and Sustainable Development of Georgia (the “Beneficiary”) on establishment of periodic vehicle technical inspection centers. To date, guarantees related to obligation to obtain accreditation for periodic vehicle inspection centers expired without payment.

Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax, currency and customs positions will be sustained.

(Thousands of Georgian lari unless otherwise stated)

26. Commitments and contingencies (continued)

Financial commitments and contingencies

As of 31 December, the Group had no financial commitments and contingencies.

	2019	*2018*
Operating lease commitments:		
- Not later than 1 year	–	635
- Later than 1 year but not later than 5 years	–	1,804
- Later than 5 years	–	2,007
Capital commitments	–	9,242
Financial commitments and contingencies	**–**	**13,688**

27. Net insurance revenue

Net insurance revenue comprises:

	Notes	*2019*	*2018*
Premiums written on general insurance contracts	20	88,095	79,817
Premiums written on life insurance contracts	20	13,632	10,781
Total written premiums		**101,727**	**90,598**
Gross change in life provision		(63)	(166)
Gross change in unearned premium provision		(3,503)	(28)
Total gross earned premiums on insurance contracts		**98,161**	**90,404**
Reinsurers' share of life insurance contracts premium revenue,	20	(179)	(194)
Reinsurers' share of general insurance contracts premium revenue, direct	20	(22,260)	(24,446)
Reinsurers' share of change in life provision		(23)	21
Reinsurers' share of change in general insurance contracts unearned premium provision		(544)	1,705
Total reinsurers' share of gross earned premiums on insurance contracts		**(23,006)**	**(22,914)**
Net insurance revenue		**75,155**	**67,490**

28. Net insurance claims incurred

Net insurance claims incurred comprise:

	Notes	*2019*	*2018*
General insurance claims paid, direct	20	(32,191)	(30,316)
Life insurance claims paid	20	(6,149)	(4,472)
Gross change in total insurance contract liabilities		(51,562)	4,798
Gross insurance claims expenses		**(89,902)**	**(29,990)**
Reinsurers' share of life claims paid	20	4	137
Reinsurers' share of general claims paid	20	9,005	8,097
Reinsurers' share of change in total insurance contract liabilities		48,312	(5,466)
Reins insurance claims expenses		**57,321**	**2,768**
Claim settlement expenses		(1,703)	(1,280)
Income from regress		2,974	2,753
Net insurance claims incurred		**(31,310)**	**(25,749)**

(Thousands of Georgian lari unless otherwise stated)

29. Acquisition costs, net of reinsurance

Acquisition costs, net of reinsurance comprise:

	2019	*2018*
Acquisition costs	(13,486)	(10,360)
Acquisition costs deferred (Note 12)	3,985	2,906
Amortization of deferred acquisition costs (Note 12)	(3,497)	(2,498)
Reinsurance commissions	800	432
Total acquisition costs	**(12,198)**	**(9,520)**

30. Car service revenue

During the reporting period, the Group started to generate revenue from operations related to car services including selling secondary vehicles and rendering periodic vehicle technical inspection. This revenue stream from car services is derived from both, retail and corporate customers. Periodic technical inspection is serviced through 51 periodic technical inspection lines organised in 26 centers across Georgia (10 locations in Tbilisi and 16 locations in the regions). Technical inspection prices are set by the legislation at 60 and 100 Georgian lari, including VAT, for light vehicles and heavy vehicles, respectively.

During the year ended 31 December 2019, the Group recognized car service revenue as follows:

	2019
Revenue from periodic technical inspection	12,903
Revenue from selling vehicles	1,559
Total car service revenue	**14,462**

31. Cost of car service

Cost of car service comprise:

	2019
Direct salaries	(3,331)
Cost of vehicles sold	(1,439)
Direct materials	(124)
Other	(937)
Total cost of car service	**(5,831)**

32. Investment income

Investment income from financial instruments comprises:

	2019	*2018*
Bank deposits	3,438	2,772
Available-for-sale financial assets	631	457
Loan issued	73	12
Interest income calculated using effective interest rate	**4,142**	**3,241**
Other investment income	2,781	–
Investment income	**6,923**	**3,241**

On 21 May 2019 the Group entered into the option agreement with a third party which, during an agreed option period, gave the buyer (the third party) the right but not the obligation to acquire share in the Group's subsidiary in exchange for the option fee. The option was not exercised. Whole amount of the Other investment income for the year ended 31 December 2019 comprises of the income recognised as a result of the unexercised option.
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(Thousands of Georgian lari unless otherwise stated)

33. Salaries and other employee benefits

Salaries and employee benefits comprise:

	2019	*2018*
Salaries	(8,190)	(6,622)
Bonuses	(3,946)	(3,088)
Share-based compensation	(1,602)	(593)
Insurance and other benefits	(473)	(175)
Salaries and other employee benefits	**(14,211)**	**(10,478)**

34. General and administrative expenses

General and administrative expenses comprise:

	2019	*2018*
Marketing and advertising	(2,970)	(581)
Utilities	(798)	(318)
Membership fees	(646)	(468)
Operating taxes	(609)	(279)
Legal and consultancy	(578)	(403)
Personnel training	(493)	(549)
Office supplies	(296)	(82)
Representative	(275)	(162)
Business travel and related	(239)	(30)
Repair and maintenance of property and equipment	(190)	(70)
Bank fees and commissions	(185)	(143)
Fuel	(142)	(82)
Security	(135)	(113)
Communications	(114)	(113)
Occupancy and rent	(83)	(939)
Other	(557)	(420)
Total general and administrative expenses	**(8,310)**	**(4,752)**

Remuneration of the Group's auditor for the year ended 31 December 2018 comprises fee for the audit of Group's annual financial statements amounting to GEL 238 (2018: fee for the audit of Group's annual financial statements: GEL 124 and fee for other services: GEL 21) net of VAT.

Occupancy and rent expense for the year ended 31 December 2019 is fully attributable to the leases of low-value assets.

35. Net other operating income

Other operating income comprises:

	2019	*2018*
Other operating income		
Net gain from revaluation of investment property	542	–
Penalty for breach of contract	397	350
Income from sale of greencards	173	246
Income from sale of fixed assets	146	15
Income from rent of office space	70	26
Income from hotel services	–	200
Other	47	15
Total other operating income	**1,375**	**852**
Other operating expenses		
Loss on disposal of Investment Property (Note 13)	(350)	–
Other operating expenses	(99)	(80)
Total other operating expenses	**(449)**	**(80)**
Net other operating expenses	**926**	**772**

(Thousands of Georgian lari unless otherwise stated)

36. Net non-recurring items

In March of 2019, JSC Greenway Georgia completed construction of periodic vehicle technical centers, however due to belated opening of the said centers, one-off penalty was imposed by the Ministry of Economy and Sustainable Development of Georgia against JSC Greenway Georgia, amounting to GEL 275 for the year ended 31 December 2019. Other non-recurring items did not exceed GEL 40 for the year ended 31 December 2019.

Prior to demerger, senior executives of the Group were compensated with shares of BGEO. Upon demerger, old service contracts with BGEO were terminated and new contracts were signed with Georgia Capital. All outstanding unvested share awards under old service agreements were converted into 1 Georgia Capital PLC share vesting according to original schedule and 1 BOG PLC share vesting immediately per each BGEO share. The related share-based payment expense that has not been recognized in income statement as of the termination date (that otherwise would have been recognized for services received over the remainder of the vesting period) was accelerated and immediately expensed, comprising GEL 629 for the year ended 31 December 2018.

37. Risk management

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

Governance framework

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

The Group has established a risk management function with clear terms of reference for the Board of management, its committees and the associated executive management committees. Further a clear organization structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior managers has been developed. Lastly, the Group policy framework which sets out the risk appetite of the Group, risk management, control and business conduct standards for the Group's worldwide operations has been put in place. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Group.

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

Capital management objectives

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

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

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

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

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Approach to capital management

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

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

Regulatory requirements

Regulatory capital requirements for the insurance companies operating in Georgia are set by the ISSSG and are applied to insurance companies within the Group solely on a stand-alone basis. Starting from 31 December 2018, the ISSSG requirement is to maintain a minimum share capital of GEL 4,200 for life insurance, GEL 4,200 for mandatory third party liability insurance, surety bonds and credit liability insurance, GEL 3,400 for other non-life insurance, and GEL 4,200 for reinsurance, of which 100% should be kept as cash at bank or bank deposits. Bank confirmation letters are submitted to ISSSG on a monthly basis in order to prove compliance with the above-mentioned regulatory requirement.

In addition to the minimum share capital requirement, starting from 1 January 2018 insurance companies are also required to maintain a solvency ratio, calculated as regulatory capital divided by the required solvency capital, in excess of 100%. The ISSSG defines the types of assets that can be used by an insurer to meet its regulatory capital requirements. Regulatory capital includes total equity less intangible assets and goodwill, deferred acquisition costs, deferred tax assets, unsecured loans issued, assets pledged as collateral on behalf of other parties, cash on hand above GEL 100, other assets, 100% of investments in subsidiaries and associates (50% for 2018), 30% of investment property and 10% of available-for-sale financial assets and assets held-to-maturity. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the ISSSG directives.

The required solvency capital is the greater of 18% of premium written up to GEL 100 million plus 16% of premiums above GEL 100 million; and 26% of claims up to GEL 70 million plus 23% of claims above GEL 70 million. Premiums for high risk classes of business are increased for the purpose of this calculation and an adjustment is made for reinsurance.

JSC Insurance Company Aldagi complied with ISSSG requirements as at 31 December 2019 and 2018.

As for JSC Greenway Georgia, which operates in periodic technical inspection industry, the regulatory requirements are set by National Accreditation Center of Ministry of Economy and Sustainable Development. Accreditation Center could interrupt the operation process if the inspection standards are not at required level. JSC Greenway Georgia has its own quality control department which oversees the operations and prevents JSC Greenway Georgia from any kind of fraud or breach of standards. To comply with the standards set by the government, JSC Greenway Georgia has become a member of CITA – international motor vehicle inspection committee, which plays an influential role in the development and implementation of policies for safe and sustainable road usage by providing its members with the best practice recommendations. JSC Greenway Georgia is the only player on the periodic technical inspection market with full membership of CITA.

Insurance risk

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

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

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Insurance risk (continued)

The Group primarily uses loss ratio and combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as operating expenses excluding net interest income and foreign exchange and translation losses divided by net insurance revenue. The Group's loss ratios and combined ratios calculated on a net basis were as follows:

	2019	***2018***
Loss ratio	42%	38%
Combined ratio	83%	76%

Key assumptions

Claims provisions are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts, including potential outstanding loss notifications, experience with similar claims and case law, at and after the reporting date.

The Group has used all possible and currently available information to estimate provision for claims reported by policyholders including claims' adjustment expenses according to every class of insurance contract. In addition, larger reported claims are usually separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

The principal assumption underlying the estimates is the Group's past and future claims development experience which can be used to project future claims development and hence ultimate claims costs. As such, this method extrapolates the development of paid and incurred losses based on the observed development of earlier years. Historical claims development is mainly analysed by accident years as well as by significant business lines. Technical provisions on insurance business written significantly depends on fluctuations in currency exchange rates as the insurance values on these contracts are denominated in US dollars.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. Because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date. The most significant risks arise from changes in loss frequency and loss severity − quantity of claims and average claim amount are key inputs for Motor Insurance reserve estimation. Motor insurance reserves are rather sensitive to lari devaluation and forex risk as significant portion of car repair cost is linked to foreign currencies.

The insurance business of the Group comprises both life and general insurance contracts.

(1) Life insurance contracts

The Group writes life insurance contracts, where the life of the policyholder is insured against death or permanent disability, usually for a pre-determined amount.

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all cost. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

Currently, insured risks do not vary significantly in relation to the location of the risk insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis. For contracts where death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia. Gross and net technical provisions as at 31 December 2019 on life insurance contracts is GEL 3,076 and GEL 2,900 respectively (2018: GEL 1,194 and GEL 1,055).

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Insurance risk (continued)

(2) General insurance contracts

The Group principally issues the following types of general insurance contracts: motor own damage, property, financial risks, guarantees, cargo, freight forwarding liability, general third party liability, motor third party liability, professional indemnity, marine hull, aviation hull, performance bond, compulsory third party liability for foreign-registered vehicles. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from climate changes and natural disasters.

These risks vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The table below sets out the concentration of general technical provisions by type of contract.

	2019			*2018*		
	Gross claims liabilities	***Reinsurers share of claims liabilities***	***Net claims liabilities***	***Gross claims liabilities***	***Reinsurers share of claims liabilities***	***Net claims liabilities***
Motor	19,615	(33)	19,582	17,456	(35)	17,421
Property	69,564	(61,131)	8,433	19,368	(13,538)	5,830
Liability	6,358	(2,961)	3,397	5,503	(2,878)	2,625
Guarantees	989	(340)	649	836	(270)	566
Cargo	1,064	(30)	1,034	1,203	(61)	1,142
Health	124	(1)	123	103	(7)	96
	97,714	**(64,496)**	**33,218**	**44,469**	**(16,789)**	**27,680**

For general insurance contracts, the most significant risks arise from changes in loss frequency and loss severity in motor insurance. These risks vary significantly in relation to the location of the risk insured by the Group, and the type of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies. The Group establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Group also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

Business ceded is placed on different terms (quota share, excess of loss) with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as ceded share of technical provisions. Direct insurance business written and assumed reinsurance is taken in Georgia only and the reinsurance companies are all based outside Georgia.

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages the level of credit risk it accepts through a comprehensive group credit risk process setting out the assessment and determination of what constitutes credit risk for the Group; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment. The following is a brief description of how the Group manages its credit risk exposure.

Reinsurance

Even though the Group may have 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 assumed under such reinsurance agreements. The Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract. The highest single counterparty exposure is 31% of total ceded share of technical provisions at the reporting date (2018: 17%). The Group evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position.

	Notes	***Neither past due nor impaired as at 31 December 2019***	***Past-due but not individually impaired as at 31 December 2019***	***Total 2019***
Bank deposits	7	32,574	−	**32,574**
Loan issued	11	2,054	−	**2,054**
Available-for-sale financial assets	8	6,728	−	**6,728**
Equity investments at fair value		381	−	**381**
Insurance and reinsurance receivables	9	34,221	1,883	**36,104**
Ceded share of technical provisions	20	64,672	−	**64,672**
Pension fund assets	16	4,868	−	**4,868**
Total		**145,498**	**1,883**	**147,381**

	Notes	***Neither past due nor impaired as at 31 December 2018***	***Past-due but not individually impaired as at 31 December 2018***	***Total 2018***
Bank deposits	7	23,456	−	**23,456**
Loan issued	11	33	−	**33**
Available-for-sale financial assets	8	4,408	−	**4,408**
Insurance and reinsurance receivables	9	29,682	1,760	**31,442**
Ceded share of technical provisions	20	16,928	−	**16,928**
Pension fund assets	16	18,932	−	**18,932**
Total		**93,439**	**1,760**	**95,199**

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Financial risk (continued)

The Group does not have an internal credit rating system to evaluate credit quality of either past due or impaired financial assets. The credit quality of financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. The table below provides information regarding the credit risk exposure of the Group by classifying neither past due not impaired financial assets according to external ratings.

31 December 2019	*Notes*	*BB*	*BB-*	*B+*	*B*	*B-*	*Not rated*	*Total neither past due nor impaired*
Bank deposits	7	20,436	5,441	1,836	–	–	4,861	**32,574**
Loan issued	11	–	–	–	–	–	2,054	**2,054**
Available-for-sale financial assets	8	3,028	1,799	–	509	1,392	–	**6,728**
Equity investments at fair value		–	–	381	–	–	–	**381**
Pension fund assets	16	2,507	1,651	36	–	674	–	**4,868**
Total		**25,971**	**8,891**	**2,253**	**509**	**2,066**	**6,915**	**46,605**

31 December 2018	*Notes*	*BB*	*BB-*	*B+*	*B*	*B-*	*Not rated*	*Total neither past due nor impaired*
Bank deposits	7	–	10,453	–	8,627	–	4,376	**23,456**
Loan issued	11	–	–	–	–	–	33	**33**
Available-for-sale financial assets	8	–	3,856	–	200	–	352	**4,408**
Pension fund assets	16	–	8,936	–	6,303	–	3,693	**18,932**
Total		**–**	**23,245**	**–**	**15,130**	**–**	**8,454**	**46,829**

The Group does not have a credit rating system to evaluate credit quality of Insurance and reinsurance receivables, Ceded share of technical provisions and Loans issued.

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Group is the daily calls on its available cash resources in respect of claims arising from insurance contracts and the maturity of debt securities.

The Group manages liquidity through a Group liquidity risk policy which determines what constitutes liquidity risk for the Group; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Financial risk (continued)

The table below analyses financial assets and liabilities of the Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31 December 2019	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	3,550	–	**3,550**
Bank deposits	23,284	9,290	**32,574**
Available-for-sale financial assets	3,786	2,942	**6,728**
Equity investments at fair value	223	158	**381**
Insurance and reinsurance receivables	36,104	–	**36,104**
Loan issued	2,054	–	**2,054**
Ceded share of technical provisions (except reinsurer's share in UPR)	52,657	4,129	**56,786**
Pension fund assets	4,868	–	**4,868**
Other assets	9,403	–	**9,403**
Total assets	**135,929**	**16,519**	**152,448**
Liabilities			
Gross technical provisions (except UPR)	60,176	4,938	**65,114**
Other insurance liabilities	17,590	–	**17,590**
Pension fund liabilities	4,868	–	**4,868**
Borrowings	17,914	26,663	**44,577**
Other liabilities	15,293	–	**15,293**
Lease Liabilities	1,296	4,134	**5,430**
Total liabilities	**117,137**	**35,735**	**152,872**
Net position	**18,792**	**(19,216)**	**(424)**
Accumulated gap	**18,792**	**(424)**	

31 December 2018	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	11,332	–	**11,332**
Bank deposits	13,041	10,415	**23,456**
Available-for-sale financial assets	1,380	3,028	**4,408**
Insurance and reinsurance receivables	31,442	–	**31,442**
Loan issued	33	–	**33**
Ceded share of technical provisions (except reinsurer's share in UPR)	7,803	672	**8,475**
Pension Fund Assets	18,932	–	**18,932**
Other assets	6,419	61	**6,480**
Total assets	**90,382**	**14,176**	**104,558**
Liabilities			
Gross technical provisions (except UPR)	12,519	1,033	**13,552**
Other insurance liabilities	11,145	6,458	**17,603**
Pension fund liabilities	18,932	–	**18,932**
Borrowings	14,704	19,000	**33,704**
Other liabilities	11,560	–	**11,560**
Total liabilities	**68,860**	**26,491**	**95,351**
Net position	**21,522**	**(12,315)**	**9,207**
Accumulated gap	**21,522**	**9,207**	

The amounts and maturities in respect of insurance liabilities are based on management's best estimate based on statistical techniques and past experience.

In management's opinion, liquidity is sufficient to meet the Group's present requirements.

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Financial risk (continued)

The Group's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations are as follows:

31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	1,915	9,359	26,596	16,084	**53,954**
Pension fund liabilities	–	4,868	–	–	**4,868**
Lease liabilities	208	1,201	3,833	1,889	**7,131**
Total undiscounted liabilities	**2,123**	**15,428**	**30,429**	**17,973**	**65,953**

31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	13,785	2,853	15,216	13,615	**45,469**
Pension fund liabilities	–	18,932	–	–	**18,932**
Total undiscounted liabilities	**13,785**	**21,785**	**15,216**	**13,615**	**64,401**

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges.

The Group structures levels of market risk it accepts through compliance with ISSSG directives on assets allowable to secure insurance reserves and structure of such assets. This directive determines what constitutes market risk for the Group; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or group of counterparties, and geographical and industry segments.

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's principal transactions are carried out in Georgian lari and its exposure to foreign exchange risk arise primarily with respect to US dollars and euro, as the insurance operations denominated in US dollars form significant part of the Group's operations.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

(Thousands of Georgian lari unless otherwise stated)

37. Risk management (continued)

Market risk (continued)

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2019 and 2018 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

	As at 31 December 2019			
	GEL	*USD*	*EUR*	*Total*
Assets				
Cash and cash equivalents	3,168	377	5	**3,550**
Bank deposits	32,574	–	–	**32,574**
Available-for-sale financial assets	5,120	1,608	–	**6,728**
Loans Issued	2,054	–	–	**2,054**
Insurance and reinsurance receivables	14,974	20,592	538	**36,104**
Ceded share of technical provisions	7,886	56,513	273	**64,672**
Pension fund assets	3,496	1,297	75	**4,868**
Total assets	**69,272**	**80,387**	**891**	**150,550**
Liabilities				
Gross technical provisions	40,102	59,990	698	**100,790**
Other insurance liabilities	6,261	10,432	897	**17,590**
Pension fund liabilities	4,391	476	1	**4,868**
Borrowings	3,328	–	41,249	**44,577**
Other liabilities	14,632	200	461	**15,293**
Lease liabilities	56	5,374	–	**5,430**
Total liabilities	**68,770**	**76,472**	**43,306**	**188,548**
Net position	**502**	**3,915**	**(42,415)**	**(37,998)**
Increase in currency rate in %		10.0%	11.0%	
Effect on profit		392	(4,666)	
Decrease in currency rate in %		-5.0%	-6.0%	
Effect on profit		(196)	2,545	

	As at 31 December 2018			
	GEL	*USD*	*EUR*	*Total*
Assets				
Cash and cash equivalents	11,148	183	1	**11,332**
Bank deposits	23,456	–	–	**23,456**
Available-for-sale financial assets	3,580	828	–	**4,408**
Loans Issued	33	–	–	**33**
Insurance and reinsurance receivables	7,953	23,022	467	**31,442**
Ceded share of technical provisions	8,453	8,149	326	**16,928**
Pension fund assets	17,315	1,501	116	**18,932**
Total assets	**71,938**	**33,683**	**910**	**106,531**
Liabilities				
Gross technical provisions	35,378	9,725	560	**45,663**
Other insurance liabilities	1,721	15,509	373	**17,603**
Pension fund liabilities	18,397	499	36	**18,932**
Other liabilities	33,704	–	–	**33,704**
Other liabilities	10,156	72	1,332	**11,560**
Total liabilities	**99,356**	**25,805**	**2,301**	**127,462**
Net position	**(27,418)**	**7,878**	**(1,391)**	**(20,931)**
Increase in currency rate in %		11.0%	11.0%	
Effect on profit		867	(153)	
Decrease in currency rate in %		-11.0%	-11.0%	
Effect on profit		(867)	153	

(Thousands of Georgian lari unless otherwise stated)

38. Fair values measurements

Fair value hierarchy

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

	Level 1	*Level 2*	*Level 3*	*Total 2019*
Assets measured at fair value				
Investment property	–	–	4,754	**4,754**
Available-for-sale financial assets	–	6,728	–	**6,728**
Equity investments at fair value	381	–	–	**381**
Pension fund assets				
- Available for sale assets	–	1,315	–	**1,315**
Assets for which fair values are disclosed				
Cash and cash equivalents	3,550	–	–	**3,550**
Bank deposits	–	32,574	–	**32,574**
Loan issued	–	–	2,054	**2,054**
Pension fund assets				
- Cash and cash equivalents	294	–	–	**294**
- Bank deposits	–	3,259	–	**3,259**
Liabilities for which fair values are disclosed				
Pension fund liability	–	4,868	–	**4,868**
Borrowings	–	–	44,577	**44,577**

	Level 1	*Level 2*	*Level 3*	*Total 2018*
Assets measured at fair value				
Investment property	–	–	4,719	**4,719**
Available-for-sale financial assets	–	4,408	–	**4,408**
Pension fund assets				
- Available for sale assets	–	1,589	–	**1,589**
Assets for which fair values are disclosed				
Cash and cash equivalents	11,332	–	–	**11,332**
Bank deposits	–	23,456	–	**23,456**
Loan issued	–	–	33	**33**
Pension fund assets				
- Cash and cash equivalents	3,314	–	–	**3,314**
- Bank deposits	–	14,029	–	**14,029**
Liabilities for which fair values are disclosed				
Pension fund liability	–	18,932	–	**18,932**
Borrowings	–	–	33,704	**33,704**

(Thousands of Georgian lari unless otherwise stated)

38. Fair values measurements (continued)

Fair value hierarchy (continued)

The following is a description of the determination of fair value for financial instruments and property which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Equity investments at fair value

Equity investments at fair value are valued using quoted market prices in an active market and no adjustment to the quoted price is required.

Available-for-sale financial assets

Available-for-sale financial assets are valued using a valuation technique or pricing models consist of unquoted debt securities. These securities are valued using models which incorporate data observable in the market − market rates appropriate to instrument maturity, currency and issuer's credit risk.

Investment property

Fair value for investment property is derived by some of the inputs which are not based on observable market data, such as price per square meter.

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are as shown below:

Level 3 property at fair value

	2019	*Valuation technique*	*Significant unobservable inputs*	*Amount, GEL per sq meter range*	*Area, sq meters*	*Sensitivity of the input to fair value*
Investment property	4,754	Income approach	Price per square metre	1,821-3,146	2,283	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

	2018	*Valuation technique*	*Significant unobservable inputs*	*Amount, GEL per sq meter range*	*Area, sq meters*	*Sensitivity of the input to fair value*
Investment property	845	Market approach	Price per square metre	2,296-2,585	346	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Investment property	3,874	Market approach	Price per square metre	1,531-1,823	2,283	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

Fair value of financial assets and liabilities not carried at fair value

As at 31 December 2019 and 2018, carrying values of financial assets and liabilities that are not carried at fair value in consolidated statement of financial position was not significantly different to their fair values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to variable rate financial instruments. The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

The fair value of loans issued and borrowings carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

(Thousands of Georgian lari unless otherwise stated)

39. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2019		***2018***	
	Parent	***Entities under common control***	***Parent***	***Entities under common control***
Assets				
Insurance and reinsurance receivables	–	5,504	–	2,462
Pension fund assets	–	149	–	136
Ceded share of technical reserves	162	51,163	121	323
Other assets	–	49	–	94
Available-for-sale financial assets	–	919	–	828
Equity investments at fair value	381	–	–	–
Loan Issued	–	2,054	–	–
Interest capitalisation in Premises and equipment	600	256	809	–
Interest capitalisation in Goodwill and other intangible assets	157	–	134	–
Right-of-use assets	–	267	–	–
	1,300	**60,361**	**1,064**	**3,843**
Liabilities				
Gross technical provisions	265	55,234	232	1,866
Other liabilities	–	35	–	16
Other insurance liabilities	–	1,374	–	–
Lease liabilities	–	255	–	–
Borrowings	3,327	–	13,345	–
	3,592	**56,898**	**13,577**	**1,882**

	2019		***2018***	
	Parent	***Entities under common control***	***Parent***	***Entities under common control****
Income and expenses				
Net insurance revenue	285	5,106	295	9,635
Net insurance claims and claims handling expenses	(2)	(2,807)	–	(2,782)
Acquisition costs, net of reinsurance	–	(1,755)	–	(1,361)
Investment income	–	98	–	1,372
Investment income attributable to pension fund participants	–	–	–	498
General and administrative expenses	–	(38)	–	(448)
Salaries and other employee benefits	–	(158)	–	(91)
Depreciation and amortization expenses	–	(245)	–	–
Net other operating income	–	3	–	3
Interest expense	(782)	(26)	–	–
Foreign exchange gains	–	(29)	–	134
	(499)	**149**	**295**	**6,960**

* *Entities under common control include BGEO Group plc subsidiaries for five months of 2018 and Georgia Capital plc subsidiaries for the last seven months of 2018 and for 2019.*

(Thousands of Georgian lari unless otherwise stated)

39. Related party transactions (continued)

Key Management personnel of the Group includes Aldagi and Greenway management team. Compensation of key management personnel (2019: 24 persons; 2018:13 persons) comprised the following:

	Notes	*2019*	*2018*
Salaries and bonuses		4,432	3,324
Share-based payments compensation		1,325	593
Net non-recurring items	36	–	629
Total key management compensation		**5,757**	**4,546**

40. Events after the reporting period

Outbreak of the novel coronavirus (COVID-19) in March 2020 has significantly affected economic activities in Georgia, including insurance business. The first signs of coronavirus crisis is already evident as there is a downturn in the economic performance and functional currency. GEL has started devaluation following the uncertainty that financial markets are facing after COVID outbreak. Uncertainty about the timing when the virus can be stopped makes economic forecasting difficult, as there is no comparable historical example available globally.

The Group still continues its operating activities through digital channels offered to the clients and remote work policy for its employees. Management believes that going concern of the Group is not under question, although financial effect of the virus on the Group is still in the process of being estimated.