HUALING INSURANCE JSC

International Financial Reporting Standards
Financial Statements

31 December 2020

HUALING INSURANCE JSC

Contents

HUALING INSURANCE JSC

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2020

Management of Hualing Insurance JSC is responsible for the preparation of the financial statements that present fairly the financial position of Hualing Insurance JSC (hereinafter – the "Company") as at 31 December 2020, and the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and significant accounting policies and notes to the financial statements in compliance with International Financial Reporting Standards ("IFRS").

In preparing the Company's financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2020 were approved by the Management Board of the Company on 22 April 2021.

On behalf of the Management Board:

Konstantine Sulamanidze	**Lia Aslanikashvili**
CEO	CFO
22 April 2021	22 April 2021
Tbilisi	Tbilisi

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC Hualing Insurance

Opinion

We have audited the financial statements of JSC Hualing Insurance (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matter

The financial statements of the Company for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 15 April 2020.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Stuart Leighton

Stuart Leighton
On Behalf of Deloitte & Touche LLC

Deloitte & Touche

Tbilisi, Georgia
22 April 2021

HUALING INSURANCE JSC

Statement of Financial Position

In Georgian Lari	Notes	31 December 2020	31 December 2019
Cash and cash equivalents	6	728,902	514,554
Deposits with Banks	0	8,649,085	7,240,324
Investment securities held to maturity	0	300,115	300,095
Insurance receivables	9	2,866,633	3,725,714
Reinsurance receivables	0	108,045	-
Ceded share of insurance contract reserves	10	2,804,598	3,515,339
Property, equipment and intangible assets	0	1,798,732	119,314
Other assets	12	153,740	107,107
TOTAL ASSETS:		**17,409,850**	**15,522,447**
Share capital	0	6,000,000	4,300,000
Retained earnings		3,234,771	1,594,718
Profit for the year		1,361,585	1,640,053
TOTAL EQUITY:		**10,596,356**	**7,534,771**
Insurance contract reserves	10	3,646,463	4,425,250
Reinsurance commission reserve	13	383,576	406,031
Insurance and reinsurance payables	14	2,353,151	2,840,049
Deferred income tax liability	0	-	3,244
Other financial liabilities	0	146,374	147,850
Other liabilities	0	283,930	165,251
TOTAL LIABILITIES:		**6,813,494**	**7,987,676**
TOTAL LIABILITIES & EQUITY		**17,409,850**	**15,522,447**

Approved for issue and signed on behalf of the Management Board on 22 April 2021.

Konstantine Sulamanidze
CEO

Lia Aslanikashvili
CFO

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 58.

HUALING INSURANCE JSC

Statement of Profit or Loss and Other Comprehensive Income

In Georgian Lari	Notes	2020	2019
Gross written premiums	18	7,428,000	9,681,963
Written premiums ceded to reinsurers	18	(4,966,586)	(6,141,195)
Net premiums written		**2,461,414**	**3,540,768**
Change in the gross reserve for unearned premiums	10, 18	990,715	(1,832,641)
Reinsurers share of change in the reserve of unearned premiums	10, 18	(828,571)	1,447,759
Net earned premiums		**2,623,558**	**3,155,886**
Claims settled	10, 19	(2,379,934)	(1,527,863)
Reinsurance share in claims settled	10, 19	1,774,758	1,036,511
Change in claims provisions	19	497,254	(159,205)
Reinsurance share in change in claims provisions	19	(591,352)	153,599
Subrogation and recoveries		366,609	178,119
Net claims incurred	0	**(332,665)**	**(318,840)**
Interest income		948,767	751,301
Reinsurance commission income		765,432	435,282
Acquisition costs		(87,851)	(45,057)
Impairment charge	23	(212,043)	(70,587)
Total insurance and investment activities result		**3,705,198**	**3,907,985**
Salaries & other employee benefits	20	(1,448,953)	(1,160,923)
General and administrative expenses	21	(465,234)	(571,252)
Foreign exchange gain/losses		(12,887)	12,040
Other operating expenses	22	(168,105)	(261,287)
Income before tax		**1,610,019**	**1,926,562**
Income tax expense	24	(248,434)	(286,510)
Net income		**1,361,585**	**1,640,052**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,361,585**	**1,640,052**

Approved for issue and signed on behalf of the Management Board on 22 April 2021.

Konstantine Sulamanidze
CEO

Lia Aslanikashvili
CFO

The statement of profit or loss and other comprehensive Income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 58.

HUALING INSURANCE JSC

Statement of Cash Flows

In Georgian Lari	2020	2019
Cash flows from operating activities		
Insurance premium received	5,146,957	5,029,222
Reinsurance premium paid	(1,239,927)	(1,211,164)
Net insurance premium received	**3,907,030**	**3,818,058**
Insurance claims paid	(1,485,922)	(801,385)
Reinsurance received from claims paid	118,812	7,819
Salaries and benefits paid	(1,247,208)	(1,077,223)
Cash paid to other suppliers of goods and services	(62,183)	(45,215)
Interest received on bank current accounts	42,713	23,743
Cash received from subrogation and recoveries	83,371	77,393
Commission received from reinsurers	118,295	35,502
Other operating expenses paid	(670,840)	(491,530)
Net cash flows from operating activities before income tax	**804,068**	**1,547,161**
Income tax paid	(325,518)	(524,124)
Net cash flows from operating activities	**478,550**	**1,023,036**
Cash flows used in investing activities		
Acquisition of property and equipment and intangible assets	(42,275)	(91,396)
Placement on bank deposits	(8,260,000)	(7,650,000)
Repayment of bank deposits	6,900,000	6,645,336
Interest received	854,859	526,202
Investment in assets held to maturity	-	(300,000)
Net cash flows used in investing activities	**(547,416)**	**(869,857)**
Cash flows from financing activities		
Owners contribution	261,911	-
Proceeds from borrowings	-	48,000
Repayment of borrowings	-	(48,354)
Net cash flows from financing activities	**261,911**	**(354)**
Effect of exchange rates changes on cash and cash equivalents	21,303	(6,237)
Net increase in cash and cash equivalents	**214,348**	**146,588**
Cash and cash equivalents at the beginning of the year	**514,554**	**367,965**
Cash and cash equivalents at the end of the year	**728,902**	**514,554**

During the year ended 31 December 2020 the Company performed the following non-cash transactions. These non-cash transactions were excluded from the statement of cash flows and presented separately below:

1. The parent company had transferred the real estate property in the amount of GEL 1,438,089 in the possession of the Company in a form of capital contribution. The property is intended to be used as the head office of the Company. Refer to Note 11.
2. Investment in a promissory note in the amount of GEL 300,000 upon its maturity was exchanged to another promissory note of the same issuer.
3. Claims incurred in the amount of GEL 799,762 were repaid to a customer directly by reinsurer.
4. The Company performs netting of reinsurance payables and reinsurance receivables based on the terms set in treaty agreements at the end of reporting period. Please refer to Note 0 for the information on nettings with reinsurers.

Approved for issue and signed on behalf of the Management Board on 22 April 2021.

Konstantine Sulamanidze
CEO

Lia Aslanikashvili
CFO

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 58.

Statement of Cash Flows

Georgian Lari	Share Capital	Retained Earnings	Total Equity
Balance as at 01 January 2019	**4,300,000**	**1,594,719**	**5,894,719**
Profit for 2019	-	1,640,052	1,640,052
Balance at 31 December 2019	**4,300,000**	**3,234,771**	**7,534,771**
Profit for 2020	-	1,361,585	1,361,585
Injection in equity	1,700,000	-	1,700,000
Balance at 31 December 2020	**6,000,000**	**4,596,356**	**10,596,356**

Approved for issue and signed on behalf of the Management Board on 22 April 2021.

Konstantine Sulamanidze
CEO

Lia Aslanikashvili
CFO

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 58.

1. Reporting entity

(a) Organization and operations

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2020 for JSC Hualing Insurance (the “Company”).

JSC Hualing Insurance was incorporated on 11 December 2017 and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 406232214. The Company’s registered address is 1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The Company is a joint stock company limited by shares and was set up in accordance with Georgian regulations. In 2021 JSC Hualing Insurance was renamed to BB Insurance JSC, Refer to Note 31.

As of 31 December 2020 and 2019, the Company’s immediate parent is JSC “Basisbank” incorporated in Georgia under banking licence issued by the National Bank of Georgia (“NBG”) in 1993. JSC Basisbank owes three principal subsidiaries: JSC Hualing Insurance, JSC BHL leasing and Basis Asset Management Holding LLC with 100% share in each together referred as “the Group”.

As of 31 December 2020 and 2019 ultimate shareholder of the Company were Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People’s Republic of China (92.305%), Mr. Mi Zaiqi (6.969%) and other minority shareholders (0.726%). The parent is ultimately controlled by Mr Mi Enhua, China.

The Company’s principal business activity is insurance business operations within Georgia. The Company has a life and non-life licenses issued by the Insurance State Supervision Service of Georgia on 27 December 2017.

(b) Georgian business environment

The Company operates in Georgia. Therefore, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

Starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Following to COVID-19 outbreak in Georgia early in March 2020 emergency state was announced by the Government of Georgia (“GoG”) resulted in disruption of business operations, interruption and closure of some facilities in services sectors, quarantines of personnel, reduced demand.

The COVID-19 epidemic has affected insurance sector in Georgia. The sales process of insurance products, as well as consumers’ behaviour and willingness to buy insurance policy is changing.

1. Reporting entity (continued)

The effect of COVID-19 in regard to gross written premiums (“GWP”) during 2020 was as follows:

1. Significant decrease in retail insurance activity was observed on the market, due to lockdown period, population’s willingness to buy Motor Insurance (key product of the company) was decreasing. Many clients has requested to cancel or pause insurance policies during that period.
2. Decrease of corporate activity was also expected, although with lower scale. However some directions like Hotel business were very highly impacted by COVID-19, thus majority of them hesitated to renew the ongoing policies.
3. Motor insurance sold to local leasing companies holds larger portion of Company’s annual GWP. Although key customer companies did not seize insurance policies, the leasing portfolio has decreased, accordingly less policies were sold.
4. Income from Compulsory Insurance Centre (“CIC”) operating border Motor third party liability (“MTPL”) was decreased due to tourism limitations. As a result the Company got 60% less premiums from mentioned business than it was planned by the beginning of 2020.
5. However, while full lockdown was launched and movement of transport was forbidden, positive effect was for insurance companies in loss mitigation, thus in April 2020 the Company had only 19% of the expected claims.

The forecasts remain highly sensitive to the duration of the pandemic. The lockdown restrictions significantly impact areas which compose significant part of Georgia’s economy, mostly related to hotels, restaurants and catering (“HORECA”) sector, public places such as shops/shopping malls and sectors of services, including transport, markets, stimulating consumer demand, which has a direct impact on non-health insurance business. The gradual recovery of the economy is expected in 2021, however the full opening (most critically tourism related sectors) is still under question. That makes the forecasts more vulnerable as are subjected to the external factors.

While this is still an evolving situation and the future effects cannot be predicted precisely, management has discussed several aspects of the business and evaluated risks:

1. If tourism related sectors are not recovered, the recovery in GWP is not foreseeable, thus the Company expects the similar performance that it was in 2020.
2. If the situation worsens and full lockdown will be relaunched (when movement of transport is forbidden) and this type of lockdown lasts for no more than 3 weeks, than the Company ecpects the positive effect from the reduction in number of claims during that period will significantly exceed negative effects from decrease in sales during the same period (roughly savings will be up to GEL 120,000 per month). However if full lockdown will last for more than 1 month, the Company expects the negative effect of GEL 100,000 for every extra month.
3. If however at the middle of July 2021 land borders for tourists will be reopened the Company expects the GWP to recover by 20%, which would primarily be triggered by insuring touristic vehicles entering the country and the by the comeback of HORECA sector.

2. Basis of accounting

(a) Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. The financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises.

The Company has applied temporary exemptions from IFRS 9 Financial Instruments as permitted by IFRS 4 Insurance Contracts (more than 95% of the Company's liabilities comprise of insurance liabilities) and has not previously adopted any version of IFRS 9. The Company plans to have a single date of initial application of 1 January 2023 of whole IFRS 9 and of IFRS 17.

(b) Going concern

These financial statements have been prepared assuming that the Company is a going concern and will continue operation for the foreseeable future.

(c) Functional and presentation currency

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

(d) Critical accounting judgements and key sources of estimation uncertainty

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

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

Management has made the following critical judgments involving estimations in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in these financial statements.

(e) Insurance contract liabilities

Major assumptions refer to uncertainty regarding insurance contract liabilities. For insurance contract provisions estimates have to be made both for the expected ultimate cost of claims reported but not settled at the reporting date ("RBNS") and for the expected ultimate cost of claims incurred but not yet reported at the reporting date ("IBNR"). The Company makes estimates of claims reserves on an undiscounted basis. The assumptions used in the estimation of insurance liabilities are intended to result in reserves which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

2. Basis of accounting (continued)

Reserve is made at the statement of financial position date for the expected ultimate cost of settlement of all claims notified in respect of events up to that date, whether reported or not, less amounts already paid.

The Company makes estimate of the ultimate liability arising from claims under life insurance contracts that are incurred but not yet reported at the reporting date. The carrying amount of IBNR reserve net of reinsurance as at 31 December 2020 was 6 thousand GEL (2019: 4 thousand GEL).

The Company does not provide IBNR provision for non-life insurance products. According to the policies issued, the client is obliged to inform the Company about the accident in 24 hours from the accident, otherwise the claim will be dismissed. There could be only one day gap from the accident date till the reporting date.

Reserves do not represent an exact calculation of liability, but instead represent estimates, at a given accounting date. These reserve estimates are expectations of what the ultimate settlement and administration of claims will cost based on the Company's assessment of facts and circumstances then known, review of historical settlement patterns, estimates of trends in claims severity, frequency and other factors. The process of estimating the insurance claims reserves is based on the most current information available at the time the reserves are originally established.

However, claims reserves are subject to change due to the number of variables which affect the ultimate cost of claims, such as:

- Development in claims (frequency, severity and pattern of claims) between the amount estimated and actual experience;
- Changes arising due to the time lag between the occurrence of the insured event, notification of the claim (from the insured party or a third party) and the final settlement (payment) of the claim;
- Regulatory and legislative changes;
- Political and economic situation which might change some of the correlated macroeconomic parameters (inflation, foreign exchange rates, investment income rates).

Management believes that the reserve set up is adequate and there will be no need of additional reserve requirements.

3. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Foreign currency transactions

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

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

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

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

(b) Insurance contracts

(i) Classification of contracts

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

Insurance risk is risk other than financial risk.

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

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

3. Significant accounting policies (continued)

(ii) Recognition and measurement of contracts

Premiums

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

Policy cancellations

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

Unearned premium reserve

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

(iii) Gross carrying amount and write – offs

Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Company directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The premiums are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the premium segment and client type.

(iv) Claims

Net claims incurred comprise claims settled during the financial year together with the movement in the reserve for notified claims. Claims outstanding comprise reserves for the Company’s estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not.

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

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

3. Significant accounting policies (continued)

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

(v) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the partial transfer of risk to reinsurers. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

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

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurance are estimated in a manner consistent with the outstanding claims reserve or settled claims associated with the reinsured policy.

Premiums on reinsurance assumed are recognised as revenue and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

(vi) Reinsurance commission reserve

The Company receives commissions for ceding premiums to reinsurers. This type of commission is recognised within insurance activity result in profit or loss. Commission income from ceded reinsurance premiums is recognized in proportion to reinsurance premiums earned. Changes in deferred commission income on reinsurance ceded are recorded in the statement of profit or loss and other comprehensive income.

(vii) Acquisition costs

Acquisition costs represent commissions to insurance agents and brokers and other costs directly related to acquisition. Acquisition costs become due when customers that were attracted by the relevant insurance agents and brokers pay insurance fee to the Company. In case of advance payment of acquisition costs they are carried forward to future periods and later amortised in line with unearned premium reserve over the term of the contract.

3. Significant accounting policies (continued)

(viii) Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums for each line of business which are managed together. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified an additional reserve (unexpired risk reserve) is established. During 2020 and 2019 no shortfall was identified.

(ix) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract reserves or reinsurance assets. The Company reviews its insurance receivables to assess impairment on a regular basis.

(c) Financial instruments

The Company classifies non-derivative financial assets into the loans and receivables category.
The Company classifies non-derivative financial liabilities into the other financial liabilities' category.

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

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Loans and receivables

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

(iii) ***Cash and cash equivalents***

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

3. Significant accounting policies (continued)

(iv) Deposits with banks

Deposits with banks are recorded when the Company advances money to banks. Amounts due from other banks are carried at amortised cost.

(v) Non-derivative financial liabilities - measurement

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

(vi) Offsetting

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

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

Reinsurance payables and reinsurance receivables are netted upon valuation of net positions due to or from with a reinsurer based on the terms set in treaty agreements at the end of reporting period.

(vii) Gains and losses on subsequent measurement

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

(viii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3. Significant accounting policies (continued)

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

(ii) Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment.

Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by companying together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(iii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are combined together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating unit ("CGU"). The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

3. Significant accounting policies (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) *Premises and equipment*

Premises and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

If there is no market based evidence of fair value, fair value is estimated using an income approach. The Company conducts appropriate appraisal of the carrying value of buildings measured in accordance with the revaluation model at the end of the reporting period using market based evidence to ensure that the fair value of the property has not changed significantly to lead to revaluation and is satisfied that sufficient market based evidence is available to support the current fair values.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

3. Significant accounting policies (continued)

Depreciation

Construction in progress are not depreciated. Depreciation of other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Office and computer equipment	5

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets

The Company's intangible assets have definite useful life and primarily include capitalised computer software and licences. Acquired computer software licences are capitalised on the basis of the costs incurreds to acquire and bring to use the specific software.

Capitalised costs include costs of the software development service made by external contractors. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software without functional maturity is amortised on a straight line basis over expected useful lives of 7 years.

(f) Income tax

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

(i) Current tax

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

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

DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

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

3. Significant accounting policies (continued)

(ii) Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2023, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2023 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not be subject to income tax attributable to the period profit (before distribution in a form of dividend or other forms of profit distributions) from 1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

4. Adoption of New or Revised Standards and Interpretations

The following amendments and interpretations are effective for the Company effective January 1, 2020:

Amendments to IFRS 9, IFRS 7	Basic interest rate reform
Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Materiality
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards
Amendments to IFRS 16	Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16

Amendments to IFRS 3 Definition of a business: The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

4. Adoption of New or Revised Standards and Interpretations (continued)

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

***Definition of materiality**:* Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16: In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

1. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2. Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
3. There is no substantive change to other terms and conditions of the lease.

The Company had received no temporal benefits on monthly payments in 2020.

The above standards and interpretations were reviewed by the Company’s management, but did not have a significant effect on the financial statements of the Company.

5. New Standards and Interpretations not yet adopted

New and revised IFRS Standards in issue but not yet effective: At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
Amendments to IAS 1 (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles)	Classification of Liabilities as Short-Term or Long-Term
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 3	Business combinations - Reference to the Conceptual Framework
Amendments to IAS 16	Property and equipment - Proceeds before Intended Use
Amendments to IAS 37	Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 1, IFRS 9, IAS 41; and illustrative examples accompanying IFRS 16.	Annual Improvements to IFRS 2018-2020 cycles

The management does not expect that the adoption of the Standards listed above other than IFRS 17 will have a material impact on the financial statements of the Company in future periods.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The standard is effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The Company is currently in the process of development of IFRS 17 implementation plan.

IFRS 9 Financial instruments. The Company decided to defer adoption of IFRS 9 till the date of IFRS 17 adoption and expects to apply IFRS 9 from 2023.

The Company is currently assessing impact of IFRS 9 adoption on its financial statements, which is mostly related to classification of financial instruments and expected credit loss measurement for financial assets.

5. New Standards and Interpretations not yet adopted (continued)

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company is currently assessing the impact of the amendments on its financial statements.

6. Cash and cash equivalents

In Georgian Lari	December 31, 2020	December 31, 2019
Current Accounts	728,902	514,554
Total cash and cash equivalents	**728,902**	**514,554**

Credit ratings of cash and cash equivalents were as follows:

	December 31, 2020	December 31, 2019
BB	742	62,511
BB-	445,163	320,273
B+	281,876	131,478
Not rated	1,121	291
Total	**728,902**	**514,554**

7. Deposits with Banks

In Georgian Lari	December 31, 2020	December 31, 2019
JSC Credo Bank	7,243,798	3,132,556
JSC Finca Bank	*1,350,571*	699,260
JSC BasisBank	54,716	54,701
JSC Pasha Bank	-	3,067,265
JSC Tera Bank	-	181,766
JSC Hayk Bank	-	104,776
Total bank deposits	**8,649,085**	**7,240,324**

As at 31 December 2020 and 2019 out of total amount of deposit placed in Banks, 4,200,000 GEL is attributable to minimum capital requirements set by the Insurance State Supervision Service of Georgia.

Credit ratings of placements with banks were as follows:

In Georgian Lari	December 31, 2020	December 31, 2019
BB	-	104,776
BB-	-	3,067,265
B+	54,716	54,701
Not rated	8,594,369	4,013,582
Total	**8,649,085**	**7,240,324**

Bank deposit balances are neither past due nor impaired. Bank deposits are represented by placements with Georgian commercial banks in Georgian Lari. Bank deposit placed with related party (BasisBank JSC) earn annual interest rate of 11% (2019: 10% to 11%). Refer to Note 30.

The maturity and average interest rates of deposits as at 31 December were as follows:

In Georgian Lari	December 31, 2020		December 31, 2019	
	Avg. %	Amount	Avg. %	Amount
From 1 to 6 months	13.5%	492,298	12.5%	619,008
From 6 to 12 months	11.5%	8,156,787	11.9%	6,566,615
More than 1 year	-	-	12.0%	54,701
Total	**11.6%**	**8,649,085**	**12.0%**	**7,240,324**

As at 31 December 2020 38,500 GEL (2019: 38,500 GEL) from deposits placed in parent company (BasisBank JSC) was pledged under a Guarantee agreement received from the parent. Refer to Note 30.

8. Investment securities held to maturity

In Georgian Lari	December 31, 2020	December 31, 2019
Promissory notes	300,115	300,095
Total investments in debt securities	**300,115**	**300,095**

Investment securities held to maturity comprise promissory notes (in GEL) purchased from "JSC Swiss Capital" with the rating of B-. Maturity of the promissory note held as at 31 December 2020 is 13 September 2021.

9. Insurance receivables

In Georgian Lari	December 31, 2020	December 31, 2019
Insurance receivables, gross:		
Life insurance contracts	29,283	17,649
General insurance contracts	2,769,982	3,678,633
Subrogation Receivable	349,999	100,020
Less - provision for impairment for amounts due from policyholders:		
General insurance contracts	(47,655)	(5,654)
Subrogation Receivable	(234,976)	(64,934)
Insurance receivables, net	**2,866,633**	**3,725,714**

10. Insurance contract reserves and Ceded share of insurance contract reserves

In Georgian Lari	December 31, 2020	December 31, 2019
Insurance contract reserves		
Unearned premiums reserves	3,192,475	4,183,191
Reported but not settled claims	447,812	237,856
Incurred but not reported claims	6,176	4,203
Total insurance contract reserves	**3,646,463**	**4,425,250**
Ceded share of insurance contract reserves		
Unearned premiums reserves	(2,523,330)	(3,351,901)
Reported but not settled claims	(281,268)	(163,439)
Ceded share of insurance contract reserves	**(2,804,598)**	**(3,515,339)**
Insurance contracts reserves net of reinsurance		
Unearned premiums reserves	669,145	831,290
Reported but not settled claims	166,544	74,418
Incurred but not reported claims	6,176	4,203
Total insurance contract reserves net of reinsurance	**841,865**	**909,910**

10. Insurance contract reserves and Ceded share of insurance contract reserves (continued)

UP Reserve

In Georgian Lari	December 31, 2020 Unearned premium reserve	December 31, 2020 Reinsurers share in unearned premium reserve	December 31, 2020 Net	December 31, 2019 Unearned premium reserve	December 31, 2019 Reinsurers share in unearned premium reserve	December 31, 2019 Net
Life Insurance	-	-	-	-	-	-
Motor Insurance	1,164,755	(756,057)	408,698	1,249,878	(779,711)	470,167
Property Insurance	390,576	(287,478)	103,098	399,021	(255,590)	143,431
Aviation Insurance	1,319,267	(1,316,343)	2,924	2,179,083	(2,178,484)	599
Third Party Liability (Compulsory)	104,652	-	104,652	149,655	-	149,655
Other	213,226	(163,452)	49,774	205,554	(138,116)	67,438
Total	**3,192,476**	**(2,523,330)**	**669,146**	**4,183,191**	**(3,351,901)**	**831,290**

Incurred but not reported claims reserve is only related to life insurance policies. Respective reserve is not created for other insurance policies as long as there is no lag between accident date and reporting date of the claim.

RBNS Reserve

In Georgian Lari	December 31, 2020 Reported but not settled claims	December 31, 2020 Reinsurers share of reported but not settled claims	December 31, 2020 Net	December 31, 2019 Reported but not settled claims	December 31, 2019 Reinsurers share of reported but not settled claims	December 31, 2019 Net
Life Insurance	20,902	(18,812)	2,090	5,655	(5,090)	565
Motor Insurance	320,879	(218,263)	102,616	88,377	(61,020)	27,357
Property Insurance	25,000	(21,250)	3,750	95,409	(95,409)	-
Aviation Insurance	-	-	-	-	-	-
Third Party Liability (Compulsory)	49,352	-	49,352	43,015	-	43,015
Other	31,680	(22,944)	8,736	5,400	(1,920)	3,480
Total	**447,813**	**(281,269)**	**166,544**	**237,856**	**(163,439)**	**74,417**

10. Insurance contract reserves and Ceded share of insurance contract reserves (continued)

	In Georgian Lari	December 31, 2020 Insurance contract reserves	December 31, 2020 Reinsurers' share of insurance contract reserves	December 31, 2020 Net	December 31, 2019 Insurance contract reserves	December 31, 2019 Reinsurers' share of insurance contract reserves	December 31, 2019 Net
a	Life Insurance Contracts	27,077	(18,811)	8,266	9,858	(5,090)	4,769
b	General Insurance Contracts	3,619,386	(2,785,787)	833,599	4,415,392	(3,510,250)	905,141
	Total Insurance Contract Reserves	**3,646,463**	**(2,804,598)**	**841,865**	**4,425,250**	**(3,515,339)**	**909,910**

	In Georgian Lari	2020 Insurance contract reserves	2020 Reinsurers' share of insurance contract reserves	2020 Net	2019 Insurance Contract reserves	2019 Reinsurers' share of insurance contract reserves	2019 Net
a	**At 1 January**	**9,858**	**(5,090)**	**4,768**	**8**	**-**	**8**
	Premiums written during the year	224,653	(101,142)	123,511	168,714	(84,644)	84,070
	Premiums earned during the year	(224,653)	101,142	(123,511)	(168,714)	84,644	(84,070)
	Claims incurred during the year	25,855	(23,269)	2,585	13,577	(12,220)	1,358
	Claims settled during the year	(10,608)	9,547	(1,061)	(7,922)	7,130	(792)
	Incurred but not reported claims	1,972	-	1,972	4,195	-	4,195
	At 31 December	**27,077**	**(18,812)**	**8,266**	**9,858**	**(5,090)**	**4,769**

10. Insurance contract reserves and Ceded share of insurance contract reserves (continued)

		2020			2019		
	In Georgian Lari	Insurance contract reserves	Reinsurers' share of Insurance contract reserves	Net	Insurance contract reserves	Reinsurers' share of Insurance contract reserves	Net
b	**At 1 January**	**4,415,391**	**(3,510,250)**	**905,141**	**2,433,405**	**(1,913,981)**	**519,424**
	Premiums written during the year	7,203,347	(4,865,444)	2,337,903	9,513,248	(6,056,551)	3,456,698
	Premiums earned during the year	(8,194,062)	5,694,015	(2,500,047)	(7,680,608)	4,608,791	(3,071,817)
	Claims incurred during the year	2,564,035	(1,869,318)	694,717	1,669,287	(1,177,898)	491,397
	Claims settled during the year	(2,369,325)	1,765,210	(604,115)	(1,519,941)	1,029,381	(490,560)
	At 31 December	**3,619,386**	**(2,785,787)**	**833,599**	**4,415,391**	**(3,510,250)**	**905,141**

10. Insurance contract reserves and Ceded share of insurance contract reserves (continued)

Movement of Claims Reserves	**2020**	**2019**
Reserves for claims, beginning of the year	242,059	82,854
Reserves for claims, reinsurance share, beginning of the year	(163,438)	(9,840)
Net reserves for claims, beginning of the year	78,621	73,014
Claims incurred during the year	2,589,890	1,682,864
Claims settled during the year	(2,379,935)	(1,527,863)
Incurred but not reported claims	1,972	4,195
Claims incurred during the year reinsurance share	(1,892,588)	(1,190,109)
Claims settled during the year reinsurance share	1,774,758	1,036,511
Net reserves for claims, end of the year	172,718	78,612
Reserves for claims, reinsurance share, end of the year	281,269	163,438
Reserves for claims, end of the year	**453,987**	**242,050**

Movement of premium reserves	**2020**	**2019**
Gross unearned insurance premium reserve, beginning of the year	4,183,191	2,350,550
Unearned insurance premium reserve, reinsurance share, beginning of the year	(3,351,901)	(1,904,142)
Net unearned insurance premium reserve, beginning of the year	831,290	446,408
Change in unearned insurance premium reserve	(990,715)	1,832,641
Change in unearned insurance premium reserve, reinsurance share	828,571	(1,447,759)
Net change in unearned insurance premium reserve	(162,144)	384,881
Net unearned insurance premium reserve, end of the year	669,146	831,290
Unearned insurance premium reserve, reinsurance share, end of the year	2,523,330	3,351,901
Gross unearned insurance premium reserve, end of the year	**3,192,476**	**4,183,191**

11. Property and equipment

In Georgian Lari	Note	Premises	Office and computer equipment	Total property and equipment	Computer software licences	Total property equipment and intangible assets
Cost or valuation at 31 December 2018		-	26,480	26,480	24,000	50,480
Accumulated depreciation		-	(1,318)	(1,318)	(91)	(1,409)
Carrying amount at 31 December 2018		**-**	**27,798**	**27,798**	**24,091**	**51,889**
Additions		-	37,371	37,371	48,000	85,371
Depreciation charge	0	-	(10,512)	(10,512)	(4,616)	(15,128)
Carrying amount at 31 December 2019		**-**	**52,022**	**52,022**	**67,292**	**119,314**
Cost or valuation at 31 December 2019		-	63,851	63,851	72,000	135,851
Accumulated depreciation		-	(11,829)	(11,829)	(4,708)	(16,537)
Carrying amount at 31 December 2019		**-**	**52,022**	**52,022**	**67,292**	**119,314**
Additions		1,657,459	26,141	1,683,600	28,133	1,711,733
Disposals		-	(1,996)	(1,996)	-	(1,996)
Depreciation						
Depreciation charge	0	-	(16,386)	(16,386)	(13,933)	(30,318)
Carrying amount at 31 December 2020		**1,657,459**	**59,781**	**1,717,239**	**81,493**	**1,798,732**
Cost or valuation at 31 December 2020		1,657,459	86,662	1,744,120	100,133	1,844,253
Accumulated depreciation		-	(26,881)	(26,881)	(18,640)	(45,521)
Carrying amount at 31 December 2020		**1,657,459**	**59,781**	**1,717,239**	**81,493**	**1,798,732**

12. Other assets

In Georgian Lari	December 31, 2020	December 31, 2019
Prepayments	26,663	80,042
Prepayments to Compulsory Insurance Center	23,529	23,529
Salvages	64,752	3,535
Income tax prepayment	25,069	-
Deferred tax assets	13,727	-
Total other assets	**153,740**	**107,107**

13. Reinsurance commission reserve

Reinsurance commission reserve is attributable to unearned portion of commission receivable from reinsurer.

14. Insurance and reinsurance payables

In Georgian Lari	December 31, 2020	December 31, 2019
Reinsurance Premium Payable	2,277,039	2,804,095
Agents Commission Payable	76,112	35,954
Total Insurance and Reinsurance payables	2,353,151	2,840,049

15. Other financial liabilities

In Georgian Lari	December 31, 2020	December 31, 2019
Payable to ISSSG	84,187	78,492
Payables for professional services	46,397	42,197
Other creditors	15,790	27,162
Total other financial liabilities	**146,374**	**147,851**

16. Other liabilities

In Georgian Lari	December 31, 2020	December 31, 2019
Accruals for employee compensation	257,931	121,987
Advances received	2,414	7,645
Taxes payable	8,335	261
Current income tax liability	-	35,358
Total other liabilities	**268,680**	**165,251**

17. Equity

	Number of outstanding shares	Ordinary shares	Total
At 1 January 2019	**4,300,000**	**4,300,000**	**4,300,000**
At 31 December 2019	**4,300,000**	**4,300,000**	**4,300,000**
New shares issued	1,700,000	1,700,000	1,700,000
At 31 December 2020	**6,000,000**	**6,000,000**	**6,000,000**

The total authorised number of ordinary shares is 6,000,000 (2019: 4,300,000), with a par value of GEL 1 per share (2019: GEL 1 per share). The number of ordinary issued shares is 6,000,000 (2019: 4,300,000 shares). All issued ordinary shares are fully paid. Each ordinary share carries one voting right.

In 2020 the parent has contributed to the capital of the company 1,700,000 GEL, the partially settles in a form of the property. Refer to non-cash transactions disclosed in the statement of cash flows.

(a) Share capital

As at 31 December 2020, the company had an authorized share capital of 6,000,000 GEL (31 December 2019: 4,300,000 GEL).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

(b) Dividends

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with local regulatory standards.

No dividends were declared or paid in 2020 and 2019.

18. Net earned premiums

In Georgian Lari	2020	2019
Premium written on life insurance contracts	224,653	168,714
Premium written on general insurance contracts	7,203,347	9,513,248
Total premiums written	**7,428,000**	**9,681,962**
Change in gross reserves for general unearned premiums	990,715	(1,832,640)
Total earned premiums	**8,418,715**	**7,849,322**
Reinsurers' earned premium on life insurance contracts	(101,141)	(84,070)
Reinsurers' earned premium on general insurance contracts	(5,694,016)	(4,609,366)
Total net earned premiums	**2,623,558**	**3,155,886**

Premium earned per product:

	2020			2019		
	Total premium earned	Reinsurance premium earned	Net premium earned	Total Premium earned	Reinsurance premium earned	Net premium earned
Aviation Insurance	3,440,457	3,441,524	(1,067)	3,340,891	3,340,377	514
Third Party Liability (Compulsory)	1,247,903	-	1,247,903	2,232,256	-	2,232,256
Motor Insurance	2,366,766	1,468,078	898,688	1,339,194	765,365	573,829
Property Insurance	695,757	472,125	223,632	457,865	300,586	157,279
Life Insurance	224,653	101,142	123,511	168,714	84,644	84,070
Other	443,180	312,289	130,891	310,402	202,464	107,938
Total premium earned	**8,418,716**	**5,795,158**	**2,623,558**	**7,849,322**	**4,693,436**	**3,155,886**

Premium written per product:

In Georgian Lari	2020	2019
Aviation Insurance	2,580,640	4,061,239
Third Party Liability (Compulsory)	1,202,900	2,261,523
Motor Insurance	2,281,644	2,132,779
Property Insurance	687,312	641,115
Life Insurance	224,653	168,714
Other	450,851	416,593
Total premium written	**7,428,000**	**9,681,963**

During the year ended 31 December 2020 the Company recorded GWP from transactions with a related party company of 2,039,028 GEL (2019: 1,799,857 GEL) that exceeded 10% of the total GWP for the period.

19. Net claims incurred

In Georgian Lari	2020	2019
Life insurance claims settled	10,608	7,922
General insurance claims settled	2,369,325	1,519,941
Reinsurer's share of life insurance claims settled	(9,547)	(7,130)
Reinsurer's share of general insurance claims settled	(1,765,210)	(1,029,381)
Total net claims settled	**605,176**	**491,352**
Gross change in reported but not settled claims	(499,226)	155,010
Incurred but not reported claims	1,972	4,195
Reinsurer's share of change in reported but not settled claims	591,352	(153,599)
Subrogation and Recoveries	(366,609)	(178,119)
Net claims incurred	**332,665**	**318,840**

19. Net claims incurred (continued)

Distribution of claims incurred for contracts entered into force during 2020 and 2019 between products types are set out below:

2020 ***In Georgian Lari***	**Claims settled**	**Reported but not settled claims**	**Total claims**	**Reinsurer's share in claims settled**	**Reinsurer's share in reported but not settled claims**	**Total reinsurer's share in claims**
Life Insurance	10,608	20,902	31,510	9,547	18,812	28,359
Motor Insurance	1,335,189	320,879	1,656,068	830,878	218,263	1,049,141
Property Insurance	123,941	25,000	148,941	120,623	21,250	141,873
Aviation Insurance	799,762	-	799,762	799,762	-	799,762
Third Party Liability (Compulsory)	92,999	49,351	142,351	-	-	-
Other	17,435	31,680	49,114	13,948	22,944	36,891
Total	**2,379,934**	**447,812**	**2,827,746**	**1,774,758**	**281,269**	**2,056,026**

2019 ***In Georgian Lari***	**Claims settled**	**Reported but not settled claims**	**Total claims**	**Reinsurer's share in claims settled**	**Reinsurer's share in reported but not settled claims**	**Total reinsurer's share in claims**
Life Insurance	7,922	5,655	13,577	7,130	5,090	12,220
Motor Insurance	760,169	88,377	848,546	400,599	61,020	461,619
Property Insurance	52,995	95,409	148,404	44,862	95,409	140,271
Aviation Insurance	583,460	-	583,460	583,460	-	583,460
Third Party Liability (Compulsory)	122,742	43,015	165,757	-	-	-
Other	575	5,400	5,975	460	1,920	2,380
Total	**1,527,863**	**237,856**	**1,765,719**	**1,036,511**	**163,439**	**1,199,949**

20. Salaries and other employee benefits

In Georgian Lari	2020	2019
Salaries	1,071,412	898,411
Bonuses	359,823	233,240
Insurance and other benefits	17,718	29,272
Total salaries & other employee benefits	**1,448,953**	**1,160,923**

21. General and administrative expenses

In Georgian Lari	2020	2019
Marketing	99,750	229,180
Supervisory fee	84,187	78,234
Rent	64,740	64,939
Audit and consulting	47,812	43,943
Claims Regulation costs	32,003	22,264
Depreciation	30,318	15,118
Post, Telecomm, Utilities	14,822	22,122
Business trip	6,583	13,875
Bank fees and other commissions	8,593	7,492
Representative costs	2,598	6,106
Fines and penalties	5,751	4,500
Training costs	-	1,250
Repair & Maintenance	8,227	480
Other admin costs	59,850	61,752
Total General and administrative expenses	**465,234**	**571,252**

Professional service fee above includes GEL 47,000 (2019: GEL 42,000) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

22. Other operating expenses

In Georgian Lari	2020	2019
CIC management fee	175,832	260,396
Other (income)/expenses, net	(7,727)	891
Total other operating expenses	**168,105**	**261,287**

23. Allowance for Impairment

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

	Insurance Receivables	Subrogation	Total
At 1 December 2019	-	-	-
Impairment charge	(5,654)	(64,934**)**	(70,587)
At 31 December 2019	**(5,654)**	**(64,934)**	**(70,587)**
Impairment charge	(42,001)	(170,042)	(212,043)
At 31 December 2020	**(47,655)**	**(234,976)**	**(282,631)**

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

24. Income tax expense

(a) Components of income tax expense

Income tax expense comprises of the following:

In Georgian Lari	**2020**	**2019**
Current tax charge	(265,405)	(289,813)
Deferred tax liability	16,971	3,303
Income tax expense for the year	**(248,434)**	**(286,510)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The company's applicable income tax rate was 15% in 2020 (2019: 15%).

In Georgian Lari	**2020**	**2019**
Profit before tax	1,610,019	1,926,560
Theoretical tax charge at statutory rate (2020: 15%; 2019: 15%)	(241,502)	(288,984)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income items not recognized in P&L, but taxable from taxation viewpoint	(699)	-
- Non-deductible expenses and other permanent differences	(6,233)	2,474
Income tax expense for the year	**(248,434)**	**(286,510)**

24. Income tax expense (continued)

On 13 May 2016 the Parliament of Georgia passed a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law was planned to become effective from 1 January 2019.

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

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not be subject to income tax attributable to the period profit (before distribution in a form of dividend or other forms of profit distributions) from 1 January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

(c) Deferred taxes analyzed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

In Georgian Lari	1 January, 2020	Credited/ (charged) to profit or loss	31 December, 2020
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(8,002)	627	(7,375)
Accruals	2,000	1,849	3,849
Other	2,758	14,495	17,253
Net deferred tax asset	**(3,244)**	**16,971**	**13,727**

In Georgian Lari	1 January, 2019	Credited/ (charged) to profit or loss	31 December, 2019
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(3,972)	(4,030)	(8,002)
Accruals	(1,994)	3,994	2,000
Other	(581)	3,339	2,758
Net deferred tax liability	**(6,547)**	**3,303**	**(3,244)**

25. Offsetting financial assets and financial liabilities

As of 31 December 2020 and 2019, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	31 December 2020			31 December 2019		
In Georgian Lari	Gross amounts before offsetting	Gross amounts set off	Net amount after offsetting	Gross amounts before offsetting	Gross amounts set off	Net amount after offsetting
	(a)	(b)	(c) = (a) - (b)	(a)	(b)	(c) = (a) - (b)
Receivables from reinsurer	1,290,156	(1,276,449)	13,707	727,651	(727,651)	-
Reinsurance commission receivable	1,340,998	(1,246,660)	94,338	444,176	(444,176)	-
Total assets subject to offsetting, master netting and similar arrangement	**2,631,154**	**(2,523,109)**	**108,045**	**1,171,827**	**(1,171,827)**	**-**
Reinsurance payables	4,834,304	(2,523,108)	2,311,196	3,975,922	(1,171,827)	2,804,095
Total liabilities subject to offsetting, master netting and similar arrangement	**4,834,304**	**(2,523,108)**	**2,311,196**	**3,975,922**	**(1,171,827)**	**2,804,095**

26. Capital management

(a) Capital management objectives, policies and approach

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

- Compliance with the requirements of the Insurance State Supervision Services of Georgia;
- Maintain financial strength to support new business growth and to satisfy the requirements of policyholders, regulator and other stakeholders;
- Maintaining the composition and structure of the assets accepted to cover insurance liabilities, when due and to exceed regulatory requirements; and
- Maintaining the required level of stability of the company thereby providing a degree of security to policyholders.

It is in the Company's interest to maintain adequate capital resources at all times and to fulfil respective minimum regulatory capital requirements. The primary source of capital used by the Company is financed through the issuance of shares. Maintaining a good capital base in the future is of crucial importance to the Company, both to allow the Company to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

As part of the process monitoring and managing its capital, the Company has implemented controls over conformity of the composition and structure of the assets, enabling the Company to constantly maintain a minimum level of funds, placed in top Georgian banks.

26. Capital management(continued)

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

ISSSG sets regulatory capital requirements in Georgia. ISSSG requirement is to maintain capital of GEL 4,200 thousand of which 100% percent should be kept at the banking institutions licensed in Georgia.

JSC Hualing Insurance was in compliance with capital requirements set by ISSSG during 2020 and 2019.

(b) Regulatory requirements

According to the ISSSG directive №04, issued on 20 April 2015, the minimum capital throughout the period should be not less than GEL 2,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances. Minimum capital requirement increased from December 2018 to GEL 4,200 thousand.

The Company was in compliance with the externally imposed capital requirements as at 31 December 2020.

On 16 September 2016, ISSSG issued directives №15 and №16 on the determination of the Regulatory Solvency Margin ("RSM") and Regulatory Capital, respectively. The laws also impose the requirements on maintaining minimum Regulatory Capital benchmarking against RSM.

From 31 December 2018 the minimum Regulatory Capital requirement is higher of 100% of RSM or GEL 4,200 thousand.

Starting from 31 December 2021 the minimum Regulatory Capital will be increased to the higher of 100% of RSM or GEL 7,200 thousand.

The Regulatory Capital is determined based on the IFRS equity in the statement of financial position, with certain deductions such as investments in subsidiaries and associates, unsecured loans and borrowings, etc. as prescribed by the ISSSG directive №16.

As at the date these financial statements were authorized for issue, the Company was in full compliance with the required level of Regulatory Capital.

27. Insurance risk management

(a) Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from individuals or organisations that are directly subject to the risk. Such risks mainly relate to life, motor and other non-health segments, such as, property, liability, cargo, travel or other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. The principal risk is that the frequency and severity of claims is greater

27. Insurance risk management(continued)

than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

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

(i) Underwriting strategy

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

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

Adherence to the underwriting guidelines is monitored by the Deputy General Director on an on-going basis, also on a regular basis the board of directors monitors the trends of loss ratio and business profitability. Regular analysis triggers BOD to react accordingly, and to provide changes in the products pricing/specifications in order to maintain the desired loss ratio.

(ii) Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys Treaty reinsurance for the biggest lines of business, Life, Casco, Cargo, GTPL and Property and also Facultatively Reinsures every risk in the above-mentioned products that fall out of the Treaty Reinsurance limitations.

Ceded reinsurance contains credit risk, and such reinsurance recoverable are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an on-going basis and reviews its reinsurance arrangements and reinsurer international ratings periodically.

(b) Terms and conditions of insurance contracts and nature of risks covered

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

(i) Motor insurance

27.Insurance risk management(continued)

Product features

The Company has two types of Motor insurance, fully comprehensive insurance (“Casco”) and motor third party liability insurance (“MTPL”). Under Casco contracts, corporate entities and individuals are reimbursed for any loss of, or damage caused to their vehicles. MTPL contracts provide indemnity cover to the owner of the motor vehicle against compensation payable to third parties for property damage, death or personal injury. Motor insurance includes short tail coverage. Claims that are typically made quickly are those that indemnify the policyholder against motor physical damage or loss. Claims that take longer to finalise, and are more difficult to estimate, relate to bodily injury claims.

The mandatory border motor third party liability insurance (“BMTPL”) in Georgia is provided by Compulsory Insurance Centre (“CIC”). CIC is a non-profit organization established according to the Civil Code of Georgia in January 2018 and its main function and responsibilities are to provide MTPL non-stop client services, realization of insurance policies and regulation of losses according to the Administrative law of Georgia which obliges the holder/driver of the foreign-registered motor vehicle registered in a foreign country to insure civil liability for the motor vehicle in ownership, during the full period of stay in Georgia. The compulsory insurance shall cover damages arising as a result of an insured event caused by the participation of the said vehicle or for reasons related to it.

The CIC is founded by insurers participating in the co-insurance system in order to manage compulsory insurance, these are 18 Georgian insurance companies including the Company. The center manages the sale of policies, manages the claims and distributes its profit and/or losses incurred equally among its board member companies.

Management of risk

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

The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months. Motor lines of insurance are underwritten based on the Company’s current experience.

(ii) Property insurance

Product features

The Company writes property insurance. This is comprised of corporate and retail property insurance. Property insurance indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property.

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

Management of risk

27.Insurance risk management(continued)

The key risks associated with this product are underwriting risk, competitive risk and claims experience risk (including the variable incidence of natural disasters). The Company is also exposed to the risk of exaggeration and dishonest action by claimants.

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

These risks are managed primarily through the pricing and reinsurance processes. The Company uses strict underwriting criteria to ensure that the risk of losses is acceptable to the Company. The Company reinsures its property risks by way of Excess of Loss, Surplus and Nat Cat treaties.

(iii) Life insurance

Product features

The Company writes life insurance contracts where the event giving a rise to claim is the death or permanent disability of the beneficiary and the policyholder is insured for the remaining credit towards financial institution of for a pre-determined amount.

Management of risk

The Company’s underwriting strategy is to ensure that risks are well diversified by industry sectors and geography. The Company also has right to reject payment in case a fraudulent claim is identified. The Company uses reinsurance contracts for all life insurance risks and the exposure of risk is limited to 10% of total claim. One of the key risks associated with this product is the lag between the accident date and reporting date of the claim. Because of this risk, incurred but not reported claims reserve is set up for life insurance contracts, calculated according to the chain-ladder statistical methodology.

(iv) Aviation insurance

Product features

The Company issues aviation insurance contracts. The risks covered are damages made to aircraft hull, harm done to aircraft passengers and crew, harm or damage done to third parties and their property.

Management of risk

All aviation contracts represent fronting contracts, which means that 100% of the risk is ceded to the reinsurer. The Company itself does not pay any of the claims that insured clients make. 100% of written GWP is transferred to reinsurers, whereas the Company received commission income from the reinsurers.

(c) Concentrations of insurance risk

27.Insurance risk management(continued)

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

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular company, such as a particular geography.

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

(d) Claims development

Claims development information is disclosed in a triangle format in order to illustrate the insurance risk inherent in the Company. The first triangle shows the development of the cumulative claims paid on an accident year basis, while the second triangle shows the development of the reported but not settled reserve on an accident year basis. Finally, the sum of these two triangles gives the incurred cumulative claims information. From the claims paid triangle it is seen that there was a significant increase in the claims paid amount for the accident year of 2020 compared to the previous period, which is due to increase in traffic of private cars due to public transport ban during COVID-19 pandemic, as well as increase in car repair service price due to devaluation of Georgian Lari; and also a claim with the significant amount of 799,762 GEL occurred during 2020, in aviation insurance, reinsurance share of the claim was 100%. While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2020 is adequate.

Annual Paid Cumulative triangle - as at 31 December 2020:

Accident period \ Development period	0	1	2
2018	49,952	78,470	78,470
2019	1,376,603	1,545,160	
2020	2,118,378		

27.Insurance risk management(continued)

Annual RBNS Cumulative triangle - as at 31 December 2020:

Accident period \ Development period	0	1	2
2018	29,800	-	-
2019	194,841	17,000	
2020	381,460		

Annual Incurred Cumulative triangle - as at 31 December 2020:

Accident period \ Development period	0	1	2
2018	79,752	78,470	78,470
2019	1,571,445	1,562,160	
2020	2,499,838		

RBNS from BMTPL amounted 49,352 GEL (2019: 43,015 GEL).

(e) Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes. When selecting a reinsurer, the Company considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed mainly from publicly available information.

28. Fair values and risk management

(a) Fair value of financial assets and liabilities

A number of the Company's accounting policies and disclosures require the determination of fair values for financial assets and financial liabilities. Fair values have been determined for disclosure purposes.

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

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

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

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

(i) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2020			
In Georgian Lari	**Level 1**	**Level 2**	**Level 3**	**Total**
- Premises and equipment	-	-	1,657,459	1,657,459
TOTAL ASSETS WITH RECURRING FAIR VALUE MEASUREMENTS	**-**	**-**	**1,657,459**	**1,657,459**

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs at 31 December 2020 are as follows:

In Georgian Lari	**Fair value at 31 December 2020**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**
ASSETS AT FAIR VALUE				
NON-FINANCIAL ASSETS				
- Premises	1,657,459	Market comparable assets	Price per square meter	Commercial area 3,640-10,831 Office area 2,460-4,100 Garage 1,179-1,591
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	1,657,459			

28. Fair values and risk management (continued)

(ii) Assets and liabilities not measured at fair value but for which fair value is disclosed:

	31 December 2020				31 December 2019			
In Georgian Lari	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Cash and cash equivalents	728,902	-	-	728,902	514,554	-	-	514,554
Deposits with banks (certificates of deposit)	-	7,384,348	-	7,243,798	-	3,349,376	-	3,314,322
Deposits with banks (term deposits)	-	1,434,299	-	1,405,287	-	3,983,728	-	3,926,002
Investment in securities held to maturity	-	319,710	-	300,115	-	313,520	-	300,095
Insurance receivables	-	-	2,866,633	2,866,633	-	-	3,725,714	3,725,714
Reinsurance receivables	-	-	108,046	108,046	-	-	-	-
Total financial assets	**728,902**	**9,138,357**	**2,974,679**	**12,652,781**	**514,554**	**7,646,624**	**3,725,714**	**11,780,687**
Insurance and reinsurance payables	-	-	2,353,151	2,353,151	-	-	2,840,049	2,840,049
Other financial liabilities	-	-	146,374	146,374	-	-	147,850	147,850
Total financial liabilities	**-**	**-**	**2,499,525**	**2,499,525**	-	**-**	**2,987,899**	**2,987,899**

Management believes that the fair value of the Company's accounts receivable and accounts payable approximates their carrying amounts due to their short maturities.

(b) Presentation of financial instruments by measurement category

For the measurement purposes, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL").

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. At the reporting date all financial assets were classified as (a) loans and receivables except for an investment in promissory note classified as (c) held to maturity. All of the Company's financial liabilities were carried at amortised cost.

28. Fair values and risk management (continued)

(c) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements

(i) Risk management framework

The Supervisory Board together with the Company’s management has overall responsibility for the establishment and oversight of the Company’s risk management framework and is responsible for developing and monitoring the Company’s risk management policies and reporting regularly to the shareholders on its activities.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Supervisory Board monitors the Company’s management compliance with the Company’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(ii) Credit risk

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

The Company’s exposure to credit risk is monitored on an ongoing basis.

The Company reinsures certain risks with the reinsurance companies. The selection of reinsurance companies is based on criteria mainly related to solvency, reliability and creditworthiness of the counterparty which includes and is not limited to checking international credit ratings of reinsurers.

28. Fair values and risk management (continued)

Credit exposure

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

In Georgian Lari	31 December 2020	31 December 2019
Bank deposits	8,649,085	7,240,324
Insurance receivables	2,866,633	3,725,714
Cash and cash equivalents	728,902	514,554
Investment securities held to maturity	300,115	300,095
Reinsurance receivables	108,045	-
Total credit exposure	**12,652,780**	**11,780,687**

The aging of insurance receivables at the reporting date was:

In Georgian Lari	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Not past due	317,090	-	1,568,418	-
Past due 0-30 days	2,012,858	-	1,360,544	-
Past due 31-90 days	401,486	25,936	598,133	11,746
Past due 91-180 days	92,017	33,059	213,157	28,856
Past due 181-270 days	34,556	20,002	21,673	9,670
Past due 271-365 days	67,434	42,778	33,039	19,490
Past due more than one year	223,822	160,855	1,337	825
Total	**3,149,263**	**282,630**	**3,796,301**	**70,587**

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

Management normally fully provides for impaired insurance receivables after they are 365 days overdue.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

28. Fair values and risk management (continued)

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Company's liquidity positions are reviewed by the management on a monthly basis.

Maturity profiles

The Company uses maturity analysis in managing its liquidity risk. Most of the Company's financial liabilities are contractually due to be settled in a year after the reporting date, Management estimates that the timing of cash outflows from insurance contract liabilities does not exceed one year.

Georgian Lari	Demand and less than 1 month	1 month to 6 monts	6 to 12 months	More than 1 year	Total
At 31 December 2020					
Assets					
Cash and cash equivalents	728,902	-	-	-	728,902
Bank deposits	-	492,298	8,156,787	-	8,649,085
Investment securities held to maturity	-	-	300,115	-	300,115
Insurance receivables	109,767	713,548	2,043,319	-	2,866,633
Reinsurance receivables	13,707	25,907	68,431	-	108,045
Ceded share of insurance contract reserves	281,269	657,714	1,865,615	-	2,804,599
Total financial assets	**1,133,645**	**1,889,467**	**12,434,267**	**-**	**15,457,379**
Liabilities					
Insurance contract reserves	562,390	798,516	2,285,557	-	3,646,463
Commission payables	-	96,233	287,343	-	383,576
Reinsurance payables	77,193	-	2,275,958	-	2,353,151
Deferred income tax liability	3,778	-	-	-	3,778
Current income tax liability	-	-	-	-	-
Other financial liabilities	146,374	-	-	-	146,374
Total financial liabilities	**789,735**	**894,749**	**4,848,858**	**-**	**6,533,342**
Net liquidity gap	**343,910**	**994,718**	**7,585,409**	**-**	
Cumulative liquidity gap		**1,338,628**	**8,580,127**	**7,585,409**	

28. Fair values and risk management (continued)

Georgian Lari	Demand and less than 1 month	1 month to 6 monts	6 to 12 months	More than 1 year	Total
At 31 December 2019					
Assets					
Cash and cash equivalents	514,554	-	-	-	514,554
Bank deposits	-	286,542	6,899,081	54,701	7,240,324
Investment securities held to maturity	-	-	300,095	-	300,095
Insurance receivables	333,065	2,218,978	1,173,671	-	3,725,714
Reinsurance receivables	-	-	-	-	-
Ceded share of insurance contract reserves	168,094	2,244,269	1,102,976	-	3,515,339
Total financial assets	**1,015,713**	**4,749,789**	**9,475,823**	**54,701**	**15,296,026**
Liabilities					
Insurance contract reserves	400,880	2,662,305	1,362,065	-	4,425,250
Commission payables	1,410	245,428	159,193	-	406,031
Reinsurance payables	27,634	1,689,292	1,123,122	-	2,840,049
Deferred income tax liability	3,244	-	-	-	3,244
Current income tax liability	35,358	-	-	-	35,358
Other financial liabilities	147,850	-	-	-	147,850
Total financial liabilities	**616,376**	**4,597,025**	**2,644,380**	**-**	**7,857,782**
Total financial liabilities	**789,735**	**894,749**	**4,848,858**	**-**	**6,533,342**
Net liquidity gap	**399,337**	**152,764**	**6,831,443**	**54,701**	
Cumulative liquidity gap	**-**	**552,101**	**6,984,207**	**6,886,144**	

(iv) Market risk

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

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

28. Fair values and risk management (continued)

(v) Geograpical Concentration

Georgian Lari	Georgia	OECD	Non-OECD	Total
At 31 December 2020				
Assets				
Cash and cash equivalents	728,902	-	-	728,902
Bank deposits	8,649,085	-	-	8,649,085
Investment securities held to maturity	300,115	-	-	300,115
Insurance receivables	2,866,633	-	-	2,866,633
Reinsurance receivables	53,591	11,633	42,822	108,045
Ceded share of insurance contract reserves	1,387,405	281,932	1,135,262	2,804,598
Total financial assets	**13,985,732**	**293,565**	**1,178,083**	**15,457,379**
Liabilities				
Insurance contract reserves	3,646,463	-	-	3,646,463
Commission payables	53,113	95	330,369	383,576
Reinsurance payables	1,927,982	212,060	213,109	2,353,151
Deferred income tax liability	3,778	-	-	3,778
Current income tax liability	-	-	-	-
Other financial liabilities	146,374	-	-	146,374
Total financial liabilities	**5,777,710**	**212,155**	**543,478**	**6,533,342**
Net position	**8,208,022**	**81,410**	**634,606**	

Georgian Lari	Georgia	OECD	Non-OECD	Total
At 31 December 2019				
Financial assets				
Cash and cash equivalents	514,554	-	-	514,554
Bank deposits	7,240,324	-	-	7,240,324
Investment securities held to maturity	300,095	-	-	300,095
Insurance receivables	3,725,714	-	-	3,725,714
Ceded share of insurance contract reserves	2,275,305	328,834	911,200	3,515,339
Total financial assets	**14,055,992**	**328,834**	**911,200**	**15,296,026**
Financial liabilities				
Insurance contract reserves	4,425,250	-	-	4,425,250
Commission payables	78,806	52	327,173	406,031
Reinsurance payables	2,273,545	76,204	490,300	2,840,049
Deferred income tax liability	3,244	-	-	3,244
Current income tax liability	35,358	-	-	35,358
Other financial liabilities	147,850	-	-	147,850
Total financial liabilities	**6,964,054**	**76,256**	**817,473**	**7,857,783**
Net position	**7,091,938**	**252,578**	**93,728**	

28. Fair values and risk management (continued)

(vi) Currency risk

The Company's assets and liabilities are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Company has an open currency position ("OCP") and is exposed to potentially unfavourable changes in exchange rates.

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

The Company is exposed to currency risk mainly on insurance receivables and payables denominated in USD and EUR. The Company's exposure to foreign currency risk was as follows:

	31 December 2020		31 December 2019	
In Georgian Lari	**USD denominated**	**EUR denominated**	**USD denominated**	**EUR denominated**
Cash and cash equivalents	254,661	-	1,013	-
Insurance receivables	1,666,469	150,915	2,784,080	5,556
Reinsurance receivables	100,353	4,436	-	-
Ceded share of insurance contract reserves	1,814,072	147,804	2,860,653	8,294
Insurance contract reserves	(2,087,244)	(151,973)	(3,308,898)	(5,890)
Reinsurance payables	(1,922,086)	(147,856)	(2,798,823)	(5,669)
Net Exposure	**(173,775)**	**3,326**	**(461,975)**	**2,291**

The following significant exchange rates have been applied:

	Average Rate	Reporting date spot rate
In GEL	**2020**	**31 December 2020**
USD	3.1097	3.2766
EUR	3.5519	4.0233

	Average Rate	Reporting date spot rate
In GEL	**2019**	**31 December 2019**
USD	2.8192	2.8677
EUR	3.1553	3.2095

28. Fair values and risk management (continued)

Sensitivity analysis

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

In Georgian Lari	Strengthening Profit or (Loss) and Equity	Weakening Profit or (Loss) and Equity
31 December 2020		
USD (20% movement)	34,755	(34,755)
EUR (20% movement)	(665)	665
31 December 2019		
USD (20% movement)	92,395	(92,395)
EUR (20% movement)	(458)	458

(vii) Interest rate risk

Fluctuations in market interest rates may affect adversely the financial position and the results of operations of the Company.

As of 31 December 2019 the Company had no exposure to floating rate interest bearing instrument, therefore, management believes that the Company does not have significant exposure to interest rate risk.

29. Contingencies

(a) Legal proceedings

In the normal course of business, the Company is a party to legal actions, mainly related to claims or subrogation payments. There are no major legal disputes as of the reporting date which could have a material impact on the Company’s financial position.

(b) Taxation contingencies

Georgian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. A tax year remains open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Georgian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm’s-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

29. Contingencies (continued)

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant. The Company consults with qualified external tax advisors on a regular basis.

30. Related parties

(a) Parent and ultimate controlling party

As of 31 December 2020 and 2019, the Company's immediate parent company was JSC "Basis bank" incorporated in Georgia. As of 31 December 2020 and 2019 ultimate shareholder of the Company were Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People's Republic of China (92.305%), Mr. Mi Zaiqi (6.969%) and other minority shareholders 0.726%.

(b) Key management remuneration

Key management includes Directors (executive).

	2020		2019	
In Georgian Lari	Expense	Accrued Liability	Expense	Accrued Liability
Salaries and bonuses	661,482	220,867	352,759	100,377
Post-employment benefits & Insurance	2,020	-	1,656	-
Total key management compensation	**663,502**	**220,867**	**354,414**	**100,377**

30. Related parties (continued)

(c) Transactions with other related parties

The outstanding balances and related expense and income as for the year ended 31 December 2019 and 2018 with related parties are as follows:

	2020			2019		
In Georgian Lari	**Entities Under Common Control***	**Parent Company**	**Other***	**Entities Under Common Control***	**Parent Company**	**Other**
Assets						
Cash and cash equivalents	-	278,003	-	-	131,454	-
Bank deposits	-	54,716	-	-	54,701	-
Insurance receivables	149,991	21,845	1,119,034	106,413	24,780	841,424
Total assets	**149,991**	**354,564**	**1,119,034**	**106,413**	**210,936**	**841,424**
Liabilities						
Insurance contract reserves	153,694	133,797	1,322,630	121,691	74,778	1,252,275
Commission payables	-	113	-	-	704	-
Total liabilities	**153,694**	**133,910**	**1,322,630**	**121,691**	**75,482**	**1,252,275**
Off – Balance; Guarantee received		*38,500*			*38,500*	

The guarantee is issued in favor of Compulsory Insurance Center (CIC) by the JSC Basis Bank to cover unexpected losses which the center may incur during its operations, and the claim for the payment is refundable within 1 working day.

30. Related parties (continued)

	2020			2019		
In Georgian Lari	**Entities Under Common Control***	**Parent Company**	**Other***	**Entities Under Common Control***	**Parent Company**	**Other**
Income Statement						
Earned premium	242,086	408,036	2,391,637	38,788	303,705	2,202,617
Interest income		6,835		-	275,167	-
Claims Settled	232,228	52,086	124,284	28,244	18,957	76,522
Change in outstanding claims	(4,650)	20,747	(275)	20,000	9,150	(6,825)
Acquisition costs	-	608	-	-	2,758	-
Foreign exchange gain/losses	(12,581)	2,397	(22,673)	-	4,881	(5,558)
Total	**457,083**	**490,708**	**2,492,973**	**87,033**	**614,618**	**2,266,755**

Bank deposits placed with related parties earn annual interest rate of 10% to 11%.

Entities under common control includes JSC Basis Bank's subsidiaries. Other related parties mostly comprise members of Hualin g Group (subsidiaries of ultimate shareholder, etc).

31. Subsequent Events

Following to the Re-branding strategy of the Group Hualing Insurance JSC was renamed to BB Insurance JSC on 26 March 2021.