JSC Insurance Company Tao

Financial statements

for the year ended 31 December 2023
together with independent auditor's report

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Independent auditor's report

To the Shareholder and Supervisory Board of JSC Insurance company TAO

Opinion

We have audited the financial statements of JSC Insurance company TAO (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 18 April 2023.

Other information included in the Company's 2023 Management Report

Other information consists of the information included in the Company's 2023 Management Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2023 Management Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

The Supervisory Board is 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.

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- 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 the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ruslan Khoroshvili (SARAS-A-615243)

On behalf of EY LLC (SARAS-F-855308)

2 May 2024

Tbilisi, Georgia

Statement of financial position

As at 31 December 2023

(Thousands of Georgian lari)

	Notes	2023	2022 (restated*)	1 January 2022 (restated*)
Assets				
Cash and cash equivalents	5	176	539	661
Bank deposits	6	11,648	9,316	8,280
Debt instruments at amortised cost	7	199	197	197
Insurance contract asset	8	107	372	198
Loan issued		–	–	419
Current income tax assets		–	274	–
Right-of-use assets		4	12	19
Goodwill and other intangible assets		–	1	1
Other assets	11	401	259	349
Total assets		**12,535**	**10,970**	**10,124**
Equity	12			
Share capital				
– ordinary shares		2,500	2,500	2,500
Retained earnings		9,121	7,419	6,541
Total equity		**11,621**	**9,919**	**9,041**
Liabilities				
Insurance contract liability	8	606	685	533
Current income tax liabilities		16	–	8
Lease liabilities		7	19	32
Other liabilities	13	285	347	510
Total liabilities		**914**	**1,051**	**1,083**
Total equity and liabilities		**12,535**	**10,970**	**10,124**

* *Certain amounts do not correspond to the 2022 financial statements reflecting the adjustments made for change in accounting policy at adoption of IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments, as detailed in Note 3.*

Signed and authorized for release on behalf of the Management Board of JSC Insurance Company Tao:

Ketevan Akhvlediani General Director

Nino Jibladze Head of Finance Division

2 May 2024

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

Statement of financial position

As at 31 December 2023

(Thousands of Georgian lari)

	Notes	*2023*	*2022 (restated*)*	*1 January 2022 (restated*)*
Assets				
Cash and cash equivalents	5	176	539	661
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Ketevan Akhvlediani — General Director

Nino Jibladze — Head of Finance Division

2 May 2024

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

(Thousands of Georgian lari)

	Notes	*2023*	*2022 (restated*)*
Insurance revenue	8	4,566	4,711
Insurance service expense	8, 14	(1,776)	(2,778)
Other insurance related income/(expense)	8	10	(18)
Insurance service result		**2,800**	**1,915**
Interest revenue calculated using effective interest method	15	1,402	1,158
Impairment gain on financial assets		2	6
Investment result		**1,404**	**1,164**
Salaries and other employee benefits		(87)	(55)
General and administrative expenses	16	(399)	(308)
Depreciation and amortization expenses		(9)	(8)
Impairment charge on insurance contract assets	8	(13)	(5)
Net other operating income	17	121	34
Other expenses		**(387)**	**(342)**
Operating profit		**3,817**	**2,737**
Interest expense		(2)	(3)
Pre−tax profit		**3,815**	**2,734**
Income tax expense	9	(613)	(356)
Net profit and total comprehensive income		**3,202**	**2,378**

* *Certain amounts do not correspond to the 2022 financial statements reflecting the adjustments made for change in accounting policy at adoption of IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments, as detailed in Note 3.*

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2023

(Thousands of Georgian lari)

	Notes	*Ordinary share capital*	*Retained earnings*	*Total equity*
31 December 2021, as previously reported		**2,500**	**6,561**	**9,061**
Impact of initial application of IFRS 17	3	–	7	**7**
Impact of initial application of IFRS 9	3	–	(27)	**(27)**
Restated balance as at 1 January 2022		**2,500**	**6,541**	**9,041**
Profit and total comprehensive income		–	2,378	**2,378**
Dividends to the shareholder	12	–	(1,500)	**(1,500)**
31 December 2022		**2,500**	**7,419**	**9,919**
Profit and total comprehensive income		–	3,202	**3,202**
Dividends to the shareholder	12	–	(1,500)	**(1,500)**
31 December 2023		**2,500**	**9,121**	**11,621**

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2023

(Thousands of Georgian lari)

	Notes	*2023*	*2022*
Cash flows from operating activities			
Insurance premiums received		4,269	3,897
Insurance benefits and claims paid		(1,314)	(2,058)
Acquisition costs paid		(330)	(282)
Salaries and benefits paid		(85)	(47)
Interest received		1,517	687
Interest paid on lease liabilities		(2)	(4)
Operating taxes paid		(1)	(3)
Other operating income received		–	(4)
Other operating expenses paid		(149)	(37)
Net change in other operating assets and liabilities		3	14
Net cash flows from operating activities before income tax		**3,908**	**2,163**
Income tax paid		(323)	(638)
Net cash flows from operating activities		**3,585**	**1,525**
Cash flows used in investing activities			
Purchase and development of intangible assets		–	(585)
Repayment of loan issued		–	1,009
Net placement of bank deposits		(2,447)	(560)
Net cash flows used in investing activities		**(2,447)**	**(136)**
Cash flows from financing activities			
Dividend paid	12	(1,500)	(1,500)
Repayment of lease liabilities		(11)	(11)
Net cash flows used in financing activities		**(1,511)**	**(1,511)**
Net increase in cash and cash equivalents		**(363)**	**(122)**
Cash and cash equivalents, 1 January		539	661
Cash and cash equivalents, 31 December	5	**176**	**539**

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

(Thousands of Georgian lari unless otherwise stated)

1. Principal activities

JSC Insurance Company Tao (hereinafter the "Company") is a Joint Stock Company domiciled in and registered under the laws of Georgia. The Company was founded on August 22, 2007 and provides different insurance products in Georgia. The Company's legal address is Berbuki street N1, 3rd floor, commercial space N 12, Tbilisi, Georgia.

As of 31 December 2023 and 31 December 2022, 100% shareholder of the Company is JSC "Insurance Company Aldagi", a subsidiary of A Group JSC. the ultimate controlling shareholder is Georgia Capital PLC (incorporated in the United Kingdom and its shares are listed on the London Stock Exchange) as of 31 December 2023 and 31 December 2022.

The insurance license was given to the Company on August 27, 2007. License certificates: #NL012 (non−life) and #L012 (life) issued by LEPL Insurance State Supervision Service of Georgia.

War in Ukraine

As a result of the war in Ukraine, many leading countries and economic unions have announced severe economic sanctions on Russia and Belarus, including Russian banks, other entities and individuals. Since the start of the war, there has been a significant volatility of the Russian ruble against foreign currencies, as well as significant loss of value on the securities markets in Russia and of Russian companies listed in other markets. The situation is still unfolding, but it has already resulted in a humanitarian crisis and huge economic losses in Ukraine, Russia and the rest of the world. Ukraine and Russia are important trade partners of Georgia. It is expected that the war will have a significant impact on the Georgian economy. As the war is still waging, it is impossible to reliably assess the impact this may ultimately have on the Company's business as there is uncertainty over the magnitude of the impact on the economy in general. The Company's management is monitoring the economic situation in the current environment.

2. Basis of preparation

General

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These financial statements are presented in thousands of Georgian lari ("GEL"), except for per share amounts or unless otherwise indicated. The Company presents its statement of financial position broadly in order of liquidity.

The Company has prepared the financial statements on the basis that it will continue to operate as a going concern.

3. Summary of significant accounting policies

New and amended standards and interpretations

The Company applied for the first−time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated).

- IFRS 17 Insurance Contracts
- IFRS 9 Financial Instruments
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 – International Tax Reform—Pillar Two Model Rules

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS 17 Insurance Contracts

IFRS 17 replaced IFRS 4 Insurance Contracts for annual periods on or after 1 January 2023.

Changes to classification and measurement

The adoption of IFRS 17 has not changed the classification of the Company's insurance contracts.

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued held by the Company.

Under IFRS 17, all or majority of the Company's insurance contracts issued are eligible to be measured by applying the premium allocation approach (PAA). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The measurement principles of the PAA differ from the 'earned premium approach' used by the Company under IFRS 4 in the following key areas:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognised in revenue for insurance services provided;
- Measurement of the liability for remaining coverage includes an adjustment for the time value of money and the effect of financial risk where the premium due date and the related period of services are more than 12 months apart;
- Measurement of the liability for remaining coverage involves an explicit evaluation of risk adjustment for non−financial risk when a group of contracts is onerous in order to calculate a loss component (previously these may have formed part of the unearned premium reserve);
- Measurement of the liability for incurred claims (previously claims outstanding and incurred−but−not reported (IBNR) claims) is determined on a discounted probability−weighted expected value basis, and includes an explicit risk adjustment for non−financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses;

The Company allocates the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis. Insurance acquisition cash flows include those that are directly attributable to a group and to future groups that are expected to arise from renewals of contracts in that group. Where such insurance acquisition cash flows are paid (or where a liability has been recognised applying another IFRS standard) before the related group of insurance contracts is recognised, an asset for insurance acquisition cash flows is recognised. When insurance contracts are recognised, the related portion of the asset for insurance acquisition cash flows is derecognised and subsumed into the measurement at initial recognition of the insurance liability for remaining coverage of the related group.

Changes to presentation and disclosure

For presentation in the statement of financial position, the Company aggregated insurance contracts issued respectively and presents separately:

- Portfolios of insurance contracts issued that are assets;
- Portfolios of insurance contracts issued that are liabilities;

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements.

Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

The line item descriptions in the statement of profit or loss and other comprehensive income has been changed significantly compared with the previous period. Previously, the Company reported the following line items:

- Gross earned premiums on insurance contracts;
- Gross insurance claims expenses;
- Claim settlement expenses;
- Income from regress and salvages;
- Net insurance claims and claims handling expenses.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

New and amended standards and interpretations (continued)

Instead, IFRS 17 requires separate presentation of:

- Insurance revenue;
- Insurance service expenses;

The Company provided disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts (Note 8);
- Significant judgements, and changes in those judgements, when applying the standard (Note 4).

Transition

For transition date, 1 January 2023, the Company:

- Has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied;
- Has identified, recognised and measured assets for insurance acquisition cash flows as if IFRS 17 has always applied.
- Derecognised any existing balances that would not exist had IFRS 17 always applied;
- Recognised any resulting net difference in equity.

A table below shows reconciliation between IFRS 4 and IFRS 17 statements of comprehensive income for 2022:

	2022, as previously reported	*IFRS 17 Reclassifi-cations*	*IFRS 17 Adjustments*	*IFRS 9 Reclassifi-cations*	*IFRS 9 Adjustments*	*2022 (restated*)*
Gross premiums written	4,071	(4,071)	–	–	–	–
Change in unearned premium provision, gross	663	(663)	–	–	–	–
Insurance revenue	–	4,734	(23)	–	–	4,711
Gross benefits and claims paid	(2,664)	2,644	–	–	–	–
Change in outstanding claims	(156)	156	–	–	–	–
Subrogations and recoveries	252	(252)	–	–	–	–
Acquisition costs	(184)	184	–	–	–	–
Insurance service expense	–	(2,732)	(46)	–	–	(2,778)
Insurance related foreign exchange income	–	(82)	64	–	–	(18)
Insurance service result	**2,002**	**(82)**	**(5)**	**–**	**–**	**1,915**
Net interest income	1,155	–	–	(1,155)	–	–
Interest revenue calculated using effective interest method	–	–	–	1,158	–	1,158
Impairment gain on financial assets	–	–	–	–	6	6
Investment result	**1,155**	**–**	**–**	**3**	**6**	**1,164**
General and administrative expenses	(371)	63	–	–	–	(308)
Salaries and other employee benefits	–	(55)	–	–	–	(55)
Depreciation and amortization expenses	–	(8)	–	–	–	(8)
Other expenses	**(371)**	**–**	**–**	**–**	**–**	**(371)**
Net foreign exchange rate effect on foreign currency	(82)	82	–	–	–	–
Interest expense	–	–	–	(3)	–	(3)
Pre−tax Profit	**2,704**	**–**	**(5)**	**–**	**6**	**2,705**
Total comprehensive income	**2,377**	**–**	**(5)**	**–**	**6**	**2,378**

* The Company changed the presentation of Net Insurance revenue, Net insurance claims and claims handling expenses and Net underwriting profit into different grouping as Insurance service result, Net expense and Insurance service result.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

New and amended standards and interpretations (continued)

A table below shows reconciliation between IFRS 4 and IFRS17 statements of financial position at 31 December 2022:

	31 December 2022 as previously reported	*IFRS 17 Reclassifi-cations*	*IFRS 17 Adjustments*	*IFRS 9 Reclassifi-cations*	*IFRS 9 Adjustments*	*31 December 2022 (restated*)*
Assets						
Bank deposits	9,334	–	–	–	(18)	9,316
Available–for–sale financial assets	200	–	–	(200)	–	–
Debt instruments at amortised cost	–	–	–	200	(3)	197
Insurance receivables	1,523	(1,523)	–	–	–	–
Prepayments	87	(87)	–	–	–	–
Current income tax assets	–	274	–	–	–	274
Deferred acquisition costs	58	(58)	–	–	–	–
Insurance contract asset	–	372	2	–	–	374
Other assets	439	(187)	5	–	–	257
Total assets	**12,193**	**(1,209)**	**7**	**–**	**(21)**	**10,970**
Equity						
Retained earnings	7,438	–	2	–	(21)	7,419
Total equity	**9,938**	**–**	**2**	**–**	**(21)**	**9,919**
Liabilities						
Other insurance liabilities	342	–	5	–	–	347
Insurance contract liability	1,894	(1,209)	–	–	–	685
Total liabilities	**2,255**	**(1,209)**	**5**	**–**	**–**	**1,051**
Total equity and liabilities	**12,193**	**(1,209)**	**7**	**–**	**(21)**	**10,970**

A table below shows reconciliation between IFRS 4 and IFRS17 statements of financial position at initial application date 1 January 2022:

	31 December 2021 as previously reported	*IFRS 17 Reclassifi-cations*	*IFRS 17 Adjustments*	*IFRS 9 Reclassifi-cations*	*IFRS 9 Adjustments*	*1 January 2022 (restated*)*
Assets						
Bank deposits	8,300	–	–	–	(20)	8,280
Available–for–sale financial assets	200	–	–	(200)	–	–
Debt instruments at amortised cost	–	–	–	200	(3)	197
Insurance receivables	1,937	(1,937)	–	–	–	–
Loan issued	424	–	–	–	(4)	420
Prepayments	112	(112)	–	–	–	–
Deferred acquisition costs	122	(122)	–	–	–	–
Insurance contract asset	–	191	7	–	–	198
Total assets	**12,011**	**(1,868)**	**7**	**–**	**(27)**	**10,123**
Equity						
Retained earnings	**6,561**	**–**	**7**	**–**	**(27)**	**6,541**
Total equity	**9,061**	**–**	**7**	**–**	**(27)**	**(9,041)**
Liabilities						
Gross technical provisions	–	–	–	–	–	–
Other insurance liabilities	517	(8)	–	–	–	509
Insurance contract liability	2,401	(1,868)	–	–	–	533
Current income tax liability	–	8	–	–	–	8
Total liabilities	**2,950**	**(1,868)**	**–**	**–**	**–**	**1,082**
Total equity and liabilities	**12,011**	**(1,868)**	**7**	**–**	**(27)**	**10,123**

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments

IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. However, the Company elected, under the amendments to IFRS 4, to apply the temporary exemption from IFRS 9, thereby deferring the initial application date of IFRS 9 to align with the initial application of IFRS 17.

The Company applied IFRS 9 retrospectively and restated comparative information for financial instruments in the scope of IFRS 9 in its financial statements for the year ending 31 December 2023. Differences arising from the adoption of IFRS 9 was recognised in retained earnings as at 1 January 2022.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories for financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held−to−maturity (HTM) and loans and receivables (L&R) at amortised cost) were be replaced by:

- Financial assets at fair value through profit or loss, including equity instruments and derivatives;
- Debt instruments at amortised cost.

The Company's classification of its financial assets is explained in Financial assets paragraph, below.

Changes to the impairment calculation

The adoption of IFRS 9 fundamentally changed the Company's accounting for impairment losses for debt instruments held at FVOCI or amortised cost by replacing IAS 39's incurred loss approach with a forward−looking expected credit loss (ECL) approach.

IFRS 9 requires the Company to record an allowance for ECLs for all debt instruments not held at FVPL.

For debt instruments, the ECL is based on the portion of lifetime ECLs (LTECL) that would result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination or purchase of the assets, the allowance is based on the full LTECL.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances in respect of the Company's debt instruments. The increase in allowance of GEL 27 was adjusted to retained earnings.

As it was possible to do so without the use of hindsight, the Company restated the statement of financial position as at 1 January 2022, resulting in decreases in financial assets and retained earnings of GEL 27, respectively. The statement of profit or loss for the year ended 31 December 2022 was also restated, resulting in increases in impairment loss on financial assets of GEL 6.

Other amendments and interpretations that apply for the first time in 2023 do not have an impact on the Company's financial statements.

The following tables detail the impact of adopting IFRS 9 on the statement of financial position as presented in the tables above, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs and the impact of transition to IFRS 9 on classification of financial assets.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

New and amended standards and interpretations (continued)

A reconciliation between the carrying amounts and measurement categories of financial assets under IAS 39 and the balances reported under IFRS 9 as at 31 December 2022 is as follows:

	IAS 39 Measurement		*Reclassifi*	Remeasu−rement	IFRS 9	
Financial assets 31 December 2022	**Category**	**Amount**	***cation***	**ECL**	**Amount**	**Category**
Cash and cash equivalents		539		−	539	
Bank deposits		9,334		(18)	9,318	
	L&R*	**9,873**		**(18)**	**9,855**	**AC*** **
Available−for−sale financial assets		200	(200)	−	−	
To: Debt instruments at amortised cost		0	200	(3)	197	
	AFS**	**200**	**−**	**(3)**	**197**	**AC*** **
Total financial assets		**10,073**	**−**	**(21)**	**10,052**	

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as of initial application date 1 January 2022 is as follows:

	IAS 39 Measurement		*Reclassifi−*	Remeasu−rement	IFRS 9	
Financial assets 1 January 2022	**Category**	**Amount**	***cation***	**ECL**	**Amount**	**Category**
Cash and cash equivalents		661		−	661	
Bank deposits		8,300		(20)	8,280	
Loan issued		424		(4)	420	
	L&R*	**9,385**		**(24)**	**9,361**	**AC*** **
Available−for−sale financial assets		200	(200)	−	−	
To: Debt instruments at amortised cost		−	200	(3)	197	
	AFS**	**200**	**−**	**(3)**	**7,655**	**AC*** **
Total financial assets		**9,585**	**−**	**(27)**	**9,558**	

* − Loans and receivables

** − Available−for−sale

*** − Amortised cost

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Company’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company’s financial statements.

The Company revised its disclosure of accounting policies as presented in this note. The revised material accounting policy information focuses on how the Company has applied the requirements of the IFRSs to its own circumstances and includes largely items where the Company chose an accounting policy from one or more options permitted by IFRSs, items subject to significant judgments or estimates, and excludes information that only duplicates or summarizes the requirements of IFRSs, as well as accounting policies about immaterial matters.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Insurance contracts

Classification

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Company issues non−life insurance to individuals and businesses. Non−life insurance products offered include motor, liability and other lines. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of a policyholder's accident.

The Company does not issue any contracts with direct participating features.

Accounting treatment

Separating components from insurance contracts

The Company assesses its non−life insurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Company's products do not include any distinct components that require separation.

Level of aggregation

IFRS 17 requires the Company to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the Company identifies a contract as the smallest 'unit', i.e., the lowest common denominator. However, the Company makes an evaluation of whether a series of contracts need to be treated together as one unit based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand−alone contracts. As such, what is treated as a contract for accounting purposes may differ from what is considered as a contract for other purposes (i.e., legal or management). IFRS 17 also requires that no Company for level of aggregation purposes may contain contracts issued more than one year apart.

The Company does not have material portion of onerous contracts.

The Company has elected to group together those contracts that would fall into different groups only because law or regulation specifically constrains its practical ability to set a different price or level of benefits for policyholders with different characteristics.

The Company applied a full retrospective approach for transition to IFRS 17. The portfolios are further divided by year of issue and profitability for recognition and measurement purposes. Hence, within each year of issue, portfolios of contracts are divided into three groups, as follows:

- A group of contracts that are onerous at initial recognition (if any);
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any);
- A group of the remaining contracts in the portfolio (if any).

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Company assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information;
- Results of similar contracts it has recognised;
- Environmental factors, e.g., a change in market experience or regulations.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Accounting treatment

Recognition

The Company recognises groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts;
- The date when the first payment from a policyholder in the group is due or when the first payment is received;
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

Insurance contracts denominated in foreign currency

In accordance with IFRS 17, the Company had to revalue insurance contract liabilities that are denominated in foreign currencies through foreign exchange income/(expenses) line. The Company believes that it will result in more fair presentation if all the insurance related foreign exchange income/(expenses) are shown under insurance service result.

Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks;

Or

- Both of the following criteria are satisfied:
  a. The Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio;
  b. The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognised. Such amounts relate to future insurance contracts.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Accounting treatment (continued)

Measurement – Premium Allocation Approach

	IFRS 17 Options	***Adopted approach***
Premium Allocation Approach (PAA) Eligibility	Subject to specified criteria, the PAA can be adopted as a simplified approach to the IFRS 17 general model	Coverage period for insurance of all business lines assumed is one year or less and so qualifies automatically for PAA.
Insurance acquisition cash flows for insurance contracts issued	Where the coverage period of all contracts within a group is not longer than one year, insurance acquisition cash flows can either be expensed as incurred, or allocated, using a systematic and rational method, to groups of insurance contracts (including future groups containing insurance contracts that are expected to arise from renewals) and then amortised over the coverage period of the related group. For groups containing contracts longer than one year, insurance acquisition cash flows must be allocated to related groups of insurance contracts and amortised over the coverage period of the related group	For all business lines, insurance acquisition cash flows are allocated to related groups of insurance contracts and amortised over the coverage period of the related group.
Liability for Remaining Coverage (LFRC), adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LFRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LFRC.	For overdue receivables, an allowance is made for accretion of interest on the LFRC. For all other receivables, there is no allowance as the premiums are received within one year of the coverage period.
Liability for Incurred Claims, (LFIC) adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For all claims, the incurred claims are expected to be paid out in less than one year. Hence, no adjustment is made for the time value of money.
Insurance finance income and expense	There is an option to disaggregate part of the movement in LFIC resulting from changes in discount rates and present this in OCI.	N/A

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Accounting treatment (continued)

Insurance contracts – initial measurement

The Company applies the PAA to all the insurance contracts that it issues contracts that it holds, as:

- The coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary.

For a group of contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition;
- Minus any insurance acquisition cash flows at that date
- Plus or minus any amount arising from the derecognition at that date of the asset recognised for insurance acquisition cash flows and;
- Any other asset or liability previously recognised for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognised.

There is no allowance for time value of money as the premiums are received within one year of the coverage period.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company recognises a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised.

Insurance contracts – subsequent measurement

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period;
- Minus insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the insurance acquisition cash flows recognised as an expense in the reporting period for the company;
- Minus the amount recognised as insurance revenue for the services provided in the period;

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non−financial risk (the risk adjustment). The Company does not adjust the future cash flows for the time value of money and the effect of financial risk for the measurement of liability for incurred claims that are expected to be paid within one year of being incurred.

Insurance acquisition cash flows are allocated on a straight−line basis as a portion of premium to profit or loss (through insurance revenue).

Insurance acquisition cash flows

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Accounting treatment (continued)

The Company uses a systematic and rational method to allocate:

a) Insurance acquisition cash flows that are directly attributable to a group of insurance contracts:

- to that group; and
- to groups that include insurance contracts that are expected to arise from the renewals of the insurance contracts in that group.

b) Insurance acquisition cash flows directly attributable to a portfolio of insurance contracts that are not directly attributable to a group of contracts, to groups in the portfolio.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the statement of financial position, a separate asset for insurance acquisition cash flows is recognised for each related group.

The asset for insurance acquisition cash flow is derecognised from the statement of financial position when the insurance acquisition cash flows are included in the initial measurement of the related group of insurance contracts. The time bands when the Company expects to derecognise the above asset for insurance acquisition cash flows are disclosed in Note 8.

At the end of each reporting period, the Company revises amounts of insurance acquisition cash flows allocated to groups of insurance contracts not yet recognised, to reflect changes in assumptions related to the method of allocation used.

After any re−allocation, the Company assesses the recoverability of the asset for insurance acquisition cash flows, if facts and circumstances indicate the asset may be impaired. When assessing the recoverability, the Company applies:

- An impairment test at the level of an existing or future group of insurance contracts;
- An additional impairment test specifically covering the insurance acquisition cash flows allocated to expected future contract renewals.

If an impairment loss is recognised, the carrying amount of the asset is adjusted and an impairment loss is recognised in profit or loss.

The Company recognises in profit or loss a reversal of some or all of an impairment loss previously recognised and increases the carrying amount of the asset, to the extent that the impairment conditions no longer exist or have improved.

Insurance contracts – modification and derecognition

The Company derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired).

Or

- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

Presentation

The Company has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities.

Any assets for insurance acquisition cash flows recognised before the corresponding insurance contracts are included in the carrying amount of the related groups of insurance contracts are allocated to the carrying amount of the portfolios of insurance contracts that they relate to.

The Company disaggregates the total amount recognised in the statement of profit or loss and other comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance−related foreign exchange movements.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Accounting treatment (continued)

Offsetting

Insurance contract assets and liabilities of major counterparties are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis (Note 8).

The Company does not disaggregate the change in risk adjustment for non−financial risk between a financial and non−financial portion and includes the entire change as part of the insurance service result.

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts (excluding any investment component) allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, all revenue has been recognised on the basis of the passage of time.

Financial assets and liabilities

Initial recognition

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

Financial instruments are initially recognised on the trade date measured at their fair value. Except for financial assets and financial liabilities recorded at FVPL, transaction costs are added to this amount.

Measurement categories

The Company classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms. The categories include the following:

- Amortised cost;
- FVPL.

Debt instruments measured at amortised cost

Debt instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows;
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets measured at fair value through profit or loss

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition, or are mandatorily required to be measured at fair value under IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or both to collect contractual cash flows and sell.

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgement, in particular, for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios and the relevant inputs used.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

On Initial recognition the Company creates a credit loss allowance/provision equal to twelve months' expected credit losses. This is calculated by multiplying the exposure at default by probability of a default occurring in the next twelve months (the Company uses Credit ratings granted by Moody's, S&P Global and Fitch Ratings for determining PDs for rated companies, for other not rated companies their ultimate parent's rating is used, if this is not the case the Company uses country rating downgraded by two notches) and the calculates expected credit losses that would result from that default (Note 3, Note 10).

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Impairment losses on financial instruments − Note 10;
- Disclosures for significant judgements and estimates – Note 4;

The Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the appropriate effective interest rate.

All of the Company's financial assets and liabilities are measured at amortized cost.

Financial liabilities

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

Write−off

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.
The Company writes off assets deemed to be uncollectible, usually after 180 days past due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

The calculation of ECLs

The Company calculates ECLs based on scenarios to measure the expected cash shortfalls, discounted at an appropriate EIR. A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the entity expects to receive.

When estimating the ECLs, the Company considers four scenarios (a base case, an upside, a mild downside and a more extreme downside). When relevant, the assessment of multiple scenarios also incorporates the probability that the defaulted loans will cure.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD − The Probability of Default is an estimate of the likelihood of default over a given time horizon. It is estimated with consideration of economic scenarios and forward−looking information;
- EAD − The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments;
- LGD − The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the EAD.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

The Company allocates its assets subject to ECL calculations to one of these categories, determined as follows:

- 12mECL − The 12mECL is calculated as the portion of long term ECLs (LTECLs) that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. These expected 12−month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an appropriate EIR. This calculation is made for each of the four scenarios, as explained above;
- LTECL − When an instrument has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected losses are discounted by an appropriate EIR;
- Impairment − For debt instruments considered credit−impaired, the Company recognises the lifetime expected credit losses for these instruments. The method is similar to that for LTECL assets, with the PD set at 100%.

Fair value measurement

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

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

Recognition of interest income

The effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost. Similar to interest bearing financial assets previously classified as available−for−sale or held to maturity under IAS 39, interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset as well as fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the debt instrument.

Interest and similar income

Interest income comprises amounts calculated using the effective interest method and other methods (which includes interest for bank deposits, debt instruments at amortised cost and loans issued). These are disclosed separately on the face of the statement of comprehensive income.

The Company calculates interest income on financial assets, other than those considered credit−impaired, by applying the EIR to the gross carrying amount of the financial asset.

Foreign exchange income/(expenses) on financial assets

The Company believes that it will result in more fair presentation if all the investment related foreign exchange income/(expenses) are shown under investment result.

Cash and cash equivalents

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Taxation

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

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date was initially set at 1 January 2019. On 5 May 2018, the effective date of the amendment for financial institutions was revised to 1 January 2023, which was further revised to 1 January 2024 in December 2022. Under the new regulation, corporate income tax will be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution.

Georgia also has various operating taxes that are assessed on the Company's activities. These taxes are included as a component of other operating expenses. (Note 17).

Share capital

Share capital

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

Foreign currency translation

The financial statements are presented in Georgian lari, which is the Company's functional currency. Transactions in foreign currencies are initially recorded in the functional currency.

Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as foreign exchange gains/(losses).

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in foreign exchange losses. The official NBG exchange rates at 31 December 2023 and 31 December 2022 were 2.6894 and 2.7020 Georgian lari to 1 US dollar, respectively.

4. Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. The Company disaggregates information to disclose major product lines namely, motor, liability business line insurance issued. This disaggregation has been determined based on how the Company is managed.

Insurance contracts

The Company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Company's previous accounting treatment under IFRS 4.

Liability for remaining coverage

Onerous groups

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss−recovery component is determined with reference to the loss component recognised on underlying contracts. The Company does not have material portion of onerous contracts as at 31 December 2023.

(Thousands of Georgian lari unless otherwise stated)

4. Significant accounting judgments, estimates and assumptions (continued)

Insurance contracts (continued)

Time value of money

The Company do not adjust the carrying amount of the liability for remaining coverage to reflect the time value of money and the effect of financial risk using discount rates as it is expected to be covered within one year.

Liability for incurred claims

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter−Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one−off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

Risk adjustment for non−financial risk

- The risk adjustment for non−financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount;

To determine the risk adjustment the Company uses cost of capital method. To determine the risk adjustment the Company applies its estimated cost of capital which amounted 15%, 18.5% and 18% as at 1 January 2022, 31 December 2022 and 31 December 2023 respectively, risk free rate for US treasury securities adjusted for Georgian Lari risk to US Dollars (the rate by which target inflation in Georgia exceeds target inflation in USA), required capital estimated by management (10% of total regulatory reserves) and average time to maturity of insurance policies (which is assumed to be one year). The amount of risk adjustment as at 1 January 2022, 31 December 2022 and 31 December 2023 was GEL 10, GEL 10 and GEL 9 respectively.

5. Cash and Cash equivalents

Cash and cash equivalents as at 31 December comprise:

	2023	*2022*
Current accounts	176	539
Total cash and cash equivalents	**176**	**539**

As at 31 December 2023 cash and cash equivalents of the Company on stand−alone basis comprise GEL 176 (2022: GEL 539). The Insurance State Supervision Service of Georgia (ISSSG) requirement is to maintain minimum level of cash and cash equivalents at 10% of the technical provisions subject to reservation as defined by ISSSG regulatory reserve requirement resolution.

(Thousands of Georgian lari unless otherwise stated)

6. Bank Deposits

Bank deposits as at 31 December comprise:

	2023	*2022 (restated)*	*1 January 2022 (restated)*
JSC Liberty Bank	3,506	−	−
JSC Credo Bank	3,333	3,100	2,970
JSC TBC Bank	3,106	2,139	2,082
JSC Bank of Georgia	1,718	4,095	2,699
JSC VTB Bank	−	−	548
Total bank deposits	**11,663**	**9,334**	**8,299**
Less: allowance for expected credit losses (Stage 1)	(15)	(18)	(19)
Total net bank deposits	**11,648**	**9,316**	**8,280**

Bank deposits are represented by short−term (for 3 to 12 months) and medium−term placements (from 13 to 24 months) with Georgian banks and earn annual interest of 10.75% to 14.10% (2022: 10.75% to 14.1%).

7. Debt instruments at amortised cost

Debt instruments at amortised cost financial assets as at 31 December 2023 comprise:

2023	*Carrying value*	*Currency*	*Type of the security*	*Maturity*	*Nominal rate*
JSC Microfinance Organization Rico Express	202	GEL	Promissory note	October, 2024	14.00%
	202				
Less: allowance for expected credit losses (Stage1)	(3)				
Total net debt instruments at amortised cost	**199**				

Debt instruments at amortised cost as at 31 December 2022 and 1 January 2022 comprise:

1 January 2022 (restated)	*Carrying value*	*Currency*	*Type of the security*	*Maturity*	*Nominal rate*
JSC Microfinance Organization Swiss Capital	200	GEL	Promissory note	October, 2023	14.00%
	200				
Less: allowance for expected credit losses (Stage1)	(3)				
Total net debt instruments at amortised cost	**197**				

2022 (restated)	*Carrying value*	*Currency*	*Type of the security*	*Maturity*	*Nominal rate*
JSC Microfinance Organization Rico Express	200	GEL	Promissory note	October, 2023	14.00%
	200				
Less: allowance for expected credit losses (Stage1)	(3)				
Total net debt instruments at amortised cost	**197**				

(Thousands of Georgian lari unless otherwise stated)

8. Insurance contracts

The breakdown of groups of insurance contracts issued that are in an asset position and those in a liability position is set out in the table below:

	2023			*2022*			*2021*		
Insurance contracts issued	***Assets***	***Liabilities***	***Net***	***Assets***	***Liabilities***	***Net***	***Assets***	***Liabilities***	***Net***
Motor	–	604	**604**	(337)	683	**346**	(198)	526	**328**
Liability	(107)	–	**(107)**	(35)	–	**(35)**	–	5	**5**
Other	–	2	**2**	–	2	**2**	–	2	**2**
Total insurance contracts issued	**(107)**	**606**	**499**	**(372)**	**685**	**313**	**(198)**	**533**	**335**

Roll−forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims

8.1 Motor

		Liabilities for incurred claims			
	Liabilities for remaining coverage	***Liabilities for incurred claims except risk adjustment***	***Risk adjustment***	***Assets for insurance acquisition cash flows***	***Total***
Insurance contract liabilities as at 1 January 2023	–	673	10	–	**683**
Insurance contract assets as at 1 January 2023	(280)	–	–	(57)	**(337)**
Net insurance contract (assets)/liabilities as at 1 January 2023	**(280)**	**673**	**10**	**(57)**	**346**
Insurance revenue (excl. 1% supervisory fee)	**(4,470)**	**–**	**–**	**–**	**(4,470)**
Insurance service expenses	**–**	**1,529**	**(1)**	**248**	**1,776**
Incurred claims and other expenses	–	1,529	(1)	–	**1,528**
Amortization of insurance acquisition cash flows	–	–	–	248	**248**
Insurance service result	**(4,470)**	**1,529**	**(1)**	**248**	**(2,694)**
Effect of movements in exchange rate	(16)	(3)	–	–	**(19)**
Impairment charge/write−off on insurance contract assets	4	–	–	–	**4**
Total change in the statement of comprehensive income	**(4,482)**	**1,526**	**(1)**	**248**	**(2,709)**
Cash flows					
Premiums received	4,310	–	–	–	**4,310**
Claims settlement	–	(1,265)	–	–	**(1,265)**
Insurance acquisition cash flows	–	–	–	(253)	**(253)**
Total cash flows	**4,310**	**(1,265)**	**–**	**(253)**	**2,792**
Other movements/set−off	521	(346)	–	–	**175**
Net insurance contract assets/liabilities as at 31 December 2023	**69**	**588**	**9**	**(62)**	**604**
Insurance contract liabilities as at 31 December 2023	69	588	9	(62)	**604**
Net insurance contract assets/liabilities as at 31 December 2023	**69**	**588**	**9**	**(62)**	**604**

(Thousands of Georgian lari unless otherwise stated)

8. Insurance contracts (continued)

Roll−forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (continued)

8.1 Motor (continued)

		Liabilities for incurred claims			
	Liabilities for remaining coverage	***Liabilities for incurred claims except risk adjustment***	***Risk adjustment***	***Assets for insurance acquisition cash flows***	***Total***
Insurance contract liabilities as at 1 January 2022	–	516	10	–	**526**
Insurance contract assets as at 1 January 2023	(76)	–	–	(122)	**(198)**
Net insurance contract (assets)/liabilities as at 1 January 2022	**(76)**	**516**	**10**	**(122)**	**328**
Insurance revenue (excl. 1% supervisory fee)	**(4,633)**	**–**	**–**	**–**	**(4,633)**
Insurance service expenses	**–**	**2,593**	**–**	**185**	**2,778**
Incurred claims and other expenses	–	2,593	–	–	**2,593**
Amortization of insurance acquisition cash flows	–	–	–	185	**185**
Insurance service result	**(4,633)**	**2,593**	**–**	**185**	**(1,855)**
Effect of movements in exchange rate	47	(45)	–	–	**2**
Impairment charge/write−off on insurance assets	(9)	–	–	–	**(9)**
Total change in the statement of comprehensive income	**(4,595)**	**2,548**	**–**	**185**	**(1,862)**
Cash flows					
Premiums received	3,936	–	–	–	**3,936**
Claims settlement	–	(2,154)	–	–	**(2,154)**
Insurance acquisition cash flows	–	–	–	(201)	**(201)**
Total Cash flows	**3,936**	**(2,154)**	**–**	**(201)**	**1,581**
Other movements/Set−off	455	(238)	–	82	**299**
Net Insurance contract assets/liabilities as at 31 December 2023	**(280)**	**672**	**10**	**(56)**	**346**
Insurance contract liabilities as at 31 December 2023	1	672	10	–	**683**
Insurance contract assets as at 31 December 2023	(281)	–	–	(56)	**(337)**
Net insurance contract assets/liabilities as at 31/12/2022	**(280)**	**672**	**10**	**(56)**	**346**

(Thousands of Georgian lari unless otherwise stated)

8. Insurance contracts (continued)

Roll−forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims (continued)

8.2 Liability

		Liabilities for incurred claims			
	Liabilities for remaining coverage	Liabilities for incurred claims except risk adjustment	Risk adjustment	Assets for insurance acquisition cash flows	Total
Insurance contract assets as at 1 January 2023	(35)	2	−	−	**(33)**
Net insurance contract (assets)/liabilities as at 01/01/2023	**(35)**	**2**	**−**	**−**	**(33)**
Insurance revenue (excl. 1% supervisory fee)	**(96)**	**−**	**−**	**−**	**(96)**
Insurance service result	**(96)**	**−**	**−**	**−**	**(96)**
Effect of movements in exchange rate	9	−	−	−	**9**
Impairment charge/write−off on insurance assets	9	−	−	−	**9**
Total change in the statement of comprehensive income	**(78)**	**−**	**−**	**−**	**(78)**
Cash flows					
Premiums received	6	−	−	−	**6**
Total cash flows	**6**	**−**	**−**	**−**	**6**
Net Insurance contract assets/liabilities as at 31/12/2023	**(107)**	**2**	**−**	**−**	**(105)**
Insurance contract assets as at 31 December 2023	(107)	2	−	−	**(105)**
Net insurance contract assets/liabilities as at 31 December 2023	**(107)**	**2**	**−**	**−**	**(105)**

		Liabilities for incurred claims			
	Excluding loss component	Estimates of the present value of future cash flows	Risk adjustment	Assets for insurance acquisition cash flows	Total Excluding loss component
Insurance contract liabilities as at 1 January 2022	5	2	−	−	**7**
Net insurance contract (assets)/liabilities as at 1 January 2022	**5**	**2**	**−**	**−**	**7**
Insurance revenue (excl. 1% supervisory fee)	**(78)**	**−**	**−**	**−**	**(78)**
Insurance service result	**(78)**	**−**	**−**	**−**	**(78)**
Effect of movements in exchange rate	16	−	−	−	**16**
Impairment charge/write−off on insurance assets	12	−	−	−	**12**
Total change in the statement of comprehensive income	**(48)**	**−**	**−**	**−**	**(48)**
Cash flows					
Premiums Received	**10**	**−**	**−**	**−**	**10**
Total Cash flows	**10**	**−**	**−**	**−**	**10**
Net insurance contract assets/liabilities as at 31 January 2022	**(35)**	**−**	**−**	**−**	**(35)**
Insurance contract assets as at 31 December 2022	**(35)**	**2**	**−**	**−**	**(33)**
Net Insurance contract assets/liabilities as at 31 December 2022	**(35)**	**2**	**−**	**−**	**(33)**

(Thousands of Georgian lari unless otherwise stated)

9. Taxation

The corporate income tax expenses comprise:

	2023	*2022*
Current tax charge	613	356
Income tax expense	**613**	**356**

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2023 (2022: 15%).

The effective income tax rate differs from the statutory income tax rates.

As at 31 December a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2023	*2022 restated*
Income before tax	**3,815**	**2,734**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**572**	**410**
Non−deductible expenses/ (Non− taxable income)	41	(54)
Income tax expense	**613**	**356**

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date was initially set at 1 January 2019. On 5 May 2018, the effective date of the amendment for financial institutions was revised to 1 January 2023, which was further revised to 1 January 2024 in December 2022. Under the new regulation, corporate income tax will be levied on profit distributed as dividends, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution.

The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008−2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non−market prices, non−business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2017 or 1 January 2024, as applicable. Tax law amendments related to such deemed profit distribution did not have any material effect on the Company's financial statements for the year ended 31 December 2023 and 2022.

10. Allowances for impairment and provisions

The movements in the allowance for financial instruments (Stage 1) were as follows:

	Deposits (Note 6)	*Debt instruments at amortised cost (Note 7)*	*Loans issued*
1 January 2022	**20**	**3**	**4**
Recoveries	(2)	−	(4)
31 December 2022	**18**	**3**	**−**
Recoveries	(2)	−	−
31 December 2023	**16**	**3**	**−**

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

(Thousands of Georgian lari unless otherwise stated)

11. Other assets

Other assets as at 31 December comprise:

	2023	*2022*
Receivables from regression	1,860	1,969
Advances and prepayments	185	87
Assets transferred through subrogation	147	85
Other	69	87
Impairment of receivables from regression	(1,860)	(1,969)
Total other assets	**401**	**259**

12. Equity

The share capital consists of 2,500,000 ordinary shares. The nominal value of 1 share is GEL 1 (one) (not in thousands). As of 31 December 2023 and 31 December 2022, the shareholder of the Company is JSC "Insurance Company Aldagi" – 100%

In 2023, the Company declared and paid in cash GEL 1,500 (2022: GEL 1,500) dividend to its shareholder, amounting to GEL 1.7 per share (2022: GEL 1.7 per share).

13. Other liabilities

Other liabilities as at 31 December comprise:

	2023	*2022*
Trade payables	93	65
Deposits received	4	6
Commission payable	93	194
Operating taxes payable	92	82
Accruals for employee compensation	2	–
Other	1	–
Other liabilities	**285**	**347**

14. Insurance Service Expenses

Net insurance claims incurred comprise:

	Notes	*Motor*	*Total*
2023			
Insurance Claims and other expenses	8	(1,528)	**(1,528)**
Amortisation of insurance acquisition cash flows	8	(248)	**(248)**
Total insurance service expense		**(1,776)**	**(1,776)**

	Notes	*Motor*	*Total*
2022			
Insurance Claims and other expenses	8	(2,593)	**(2,593)**
Amortisation of insurance acquisition cash flows	8	(185)	**(185)**
Total insurance service expense		**(2,778)**	**(2,778)**

(Thousands of Georgian lari unless otherwise stated)

15. Investment result

Investment income from financial instruments comprises interest income calculating at EIR method on:

	2023	*2022 (restated)*
Bank deposits	1,374	1,095
Loans issued	–	36
Debt instruments at amortized cost	28	27
Interest income calculated using effective interest rate	**1,402**	**1,158**
Impairment gain on financial assets (Note 10)	2	6
Investment result	**1,404**	**1,164**

16. General and administrative expenses

General and administrative expenses comprise:

	2023	*2022*
Membership fees	(267)	(224)
Legal and other professional services	(71)	(25)
Bank fees and commissions	(2)	(2)
Operating taxes	(2)	(2)
Other	(57)	(55)
Total general and administrative expenses	**(399)**	**(308)**

Remuneration of the Company's auditor for the year ended 31 December 2023 comprises fee for the audit of Company's annual financial statements amounting to GEL 71 (2022: fee for the audit of Company's annual financial statements amounting to GEL 25) net of VAT.

17. Net other operating income

Net other operating income comprises:

	2023	*2022*
Other operating income		
Penalty for breach of contract	18	34
Other	103	–
Total other operating income	**121**	**34**
Net other operating income	**121**	**34**

18. Risk management

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

Governance framework

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

(Thousands of Georgian lari unless otherwise stated)

18. Risk management (continued)

Governance framework (continued)

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

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

Capital management objectives

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

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

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.The Company’s capital management policy for its insurance and non−insurance business is to hold sufficient liquid assets to cover statutory requirements based on the ISSSG directives.

Approach to capital management

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

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

Regulatory requirements

Regulatory capital requirements for the insurance companies operating in Georgia are set by the ISSSG and are applied to the insurance companies within the Company solely on a stand−alone basis. Starting from 31 December 2021, the ISSSG requirement is to maintain a minimum share capital of GEL 7,200 for life insurance, GEL 7,200 for mandatory third party liability insurance, surety bonds and credit liability insurance, GEL 4,800 for other non−life insurance, and GEL 7,200 for reinsurance, of which 100% should be kept as cash at bank or bank deposits. Bank confirmation letters are submitted to ISSSG on a monthly basis in order to prove compliance with the above−mentioned regulatory requirement.

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

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

The Company complied with ISSSG requirements as at 31 December 2023 and 2022.

(Thousands of Georgian lari unless otherwise stated)

18. Risk management (continued)

Insurance risk

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

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

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

	2023	*2022*
Loss ratio	33%	55%
Combined ratio	47%	67%

Key assumptions

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

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

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

Sensitivities

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

The following tables show the concentration of net insurance contract liabilities by type of contract:

	2023	*2022*	*2021*
	Insurance	***Insurance***	***Insurance***
Motor	604	346	328
Liability	(107)	(35)	5
Others	2	2	2
	499	**313**	**335**

(Thousands of Georgian lari unless otherwise stated)

18. Risk management (continued)

Financial risk

(a) Credit risk

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

Credit quality of financial assets and maximum exposure to credit risk

Maximum exposure to credit risk is represented by carrying values of respective financial assets as at 31 December 2023, 2022 and 1 January 2022.

Credit quality per class of financial assets

The credit quality of financial assets is constantly monitored in order to identify any potential adverse changes in the credit quality. The table below provides information regarding the credit risk exposure of the Company by classifying neither past due not impaired financial assets according to external ratings granted by A.M. Best, Moody's, S&P Global and Fitch.

31 December 2023	***Notes***	***Stage***	***BB+***	***BB***	***BB−***	***B+***	***B***	***B−***	***Not rated***	***Total***
Bank deposits	6	Stage 1	–	4,820	–	3,503	–	–	3,325	**11,648**
Debt instruments at amortized cost	7	Stage 1	–	–	–	–	–	199	–	**199**
Total			**–**	**4,820**	**–**	**3,503**	**–**	**199**	**3,325**	**11,847**

31 December 2022	***Notes***	***Stage***	***BB+***	***BB***	***BB−***	***B+***	***B***	***B−***	***Not rated***	***Total***
Bank deposits	6	Stage 1	–	–	6,230	–	–	–	3,086	**9,316**
Debt instruments at amortized cost	7	Stage 1	–	–	–	–	–	197	–	**197**
Total			**–**	**–**	**6,230**	**–**	**–**	**197**	**3,086**	**9,513**

(b) Liquidity risk

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

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

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

(Thousands of Georgian lari unless otherwise stated)

18. Risk management (continued)

Financial risk (continued)

(b) Liquidity risk (continued)

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

31 December 2023	***Within one year***	***More than one year***	***Total***
Assets			
Cash and cash equivalents	176	–	**176**
Bank deposits	11,648	–	**11,648**
Debt instruments at amortised cost	199	–	**199**
Insurance contract asset	107	–	**107**
Other assets	401	–	**401**
Total assets	**12,531**	–	**12,531**
Liabilities			
Insurance contract liability	606	–	**606**
Other liabilities	385	–	**352**
Lease liabilities	7	–	**7**
Total liabilities	**898**	–	**898**
Net position	**11,633**	–	**11,633**
Accumulated gap	**11,633**	**–**	

31 December 2022	***Within one year***	***More than one year***	***Total***
Assets			
Cash and cash equivalents	539	–	**539**
Bank deposits	7,571	1,745	**9,316**
Debt instruments at amortised cost	197	–	**197**
Insurance contract asset	372	–	**372**
Other assets	259	–	**259**
Total assets	**8,938**	**1,745**	**10,683**
Liabilities			
Insurance contract liability	685	–	**685**
Other liabilities	347	–	**347**
Lease liabilities	19	–	**19**
Total liabilities	**1,051**	–	**1,051**
Net position	**7,887**	**1,745**	**9,632**
Accumulated gap	**7,887**	**9,632**	

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

The Company's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations are as follows:

31 December 2023	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Other liabilities	150	135	–	–	**285**
Lease liabilities	–	7	–	–	**7**
Total undiscounted liabilities	**150**	**142**	**–**	**–**	**292**

(Thousands of Georgian lari unless otherwise stated)

18. Risk management (continued)

Financial risk (continued)

(b) Liquidity risk (continued)

31 December 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Other liabilities	–	347	–	–	**352**
Lease liabilities	–	19	–	–	**19**
Total undiscounted liabilities	**–**	**366**	**–**	**–**	**366**

Maturity analysis for liabilities for incurred claims at 31 December 2023, 2022 and 2021 can further be presented as follows:

Up to 1 year	*2023*	*2022*	*1 January 2022*
Motor	588	672	516
Others	2	2	2
	590	**674**	**518**

Market risk

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

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

Currency risk

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

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

(Thousands of Georgian lari unless otherwise stated)

18. Risk management (continued)

Market risk (continued)

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2023 and 2022 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

	As at 31 December 2023			
	GEL	***USD***	***EUR***	***Total***
Assets				
Cash and cash equivalents	175	1	–	**176**
Bank deposits	11,648	–	–	**11,648**
Debt instruments at amortised cost	199	–	–	**199**
Insurance contract asset	44	51	12	**107**
Total assets	**12,066**	**52**	**12**	**12,130**
Liabilities				
Insurance contract liability	628	(17)	(5)	**606**
Other liabilities	285	–	–	**285**
Lease liabilities	7	–	–	**7**
Total liabilities	**920**	**(17)**	**(5)**	**898**
Net position	**11,146**	**69**	**17**	**11,232**
Increase in currency rate in %		15%	15%	
Effect on profit		10	3	
Decrease in currency rate in %		−3.0%	−3.0%	
Effect on profit		(2)	(1)	

	As at 31 December 2022			
	GEL	***USD***	***EUR***	***Total***
Assets				
Cash and cash equivalents	538	1	–	**539**
Bank deposits	9,316	–	–	**9,316**
Debt instruments at amortised cost	197	–	–	**197**
Insurance contract asset	90	222	60	**372**
Total assets	**10,141**	**223**	**60**	**10,424**
Liabilities				
Insurance contract liability	562	123	–	**685**
Other liabilities	347	–	–	**347**
Lease liabilities	19	–	–	**19**
Total liabilities	**928**	**123**	**–**	**1,051**
Net position	**9,213**	**100**	**60**	**9,373**
Increase in currency rate in %		15%	15%	
Effect on profit		15	9	
Decrease in currency rate in %		−2.0%	−3.0%	
Effect on profit		(2)	(2)	

(Thousands of Georgian lari unless otherwise stated)

19. Fair values measurements

Fair value hierarchy

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

	Level 1	*Level 2*	*Level 3*	*Total 2023*
Assets measured at fair value				
Debt instruments at amortised cost	−	199	−	**199**
Assets for which fair values are disclosed				
Cash and cash equivalents	176	−	−	**176**
Bank deposits	−	11,648	−	**11,648**

	Level 1	*Level 2*	*Level 3*	*Total 2022*
Assets measured at fair value				
Debt instruments at amortised cost	−	197	−	**197**
Assets for which fair values are disclosed				
Cash and cash equivalents	539	−	−	**539**
Bank deposits	−	9,316	−	**9,316**

The following is a description of the determination of fair value for financial instruments at fair value using valuation techniques. These incorporate the Company’s estimate of assumptions that a market participant would make when valuing the instruments.

Debt instruments at amortised cost

Debt instruments at amortised cost are valued using a valuation technique or pricing models consist of unquoted debt securities. These securities are valued using models which incorporate data observable in the market − market rates appropriate to instrument maturity, currency and issuer’s credit risk.

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

As at 31 December 2023 and 2022, carrying values of financial assets and liabilities that are not carried at fair value in statement of financial position was not significantly different to their fair values.

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

Assets for which fair value approximates carrying value

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

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

(Thousands of Georgian lari unless otherwise stated)

20. Related party transactions

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Transactions with related parties disclosed below related to insurance activities have been conducted in normal course of business.

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

	2023			*2022 restated*		
	Parent	***Entities under common control***	***Others***	***Parent***	***Entities under common control***	***Others***
Assets						
Insurance contract assets	–	–	–	–	104	–
Other assets	36	–	–	–	–	–
Right of use asset	4	–	–	12	–	–
	40	–	**–**	**12**	**104**	**–**
Liabilities						
Insurance contract liability	11	79	138	26	58	53
Lease liabilities	(7)	–	–	19	–	–
	4	**79**	**138**	**45**	**58**	**80**

	2023			*2022 restated*		
	Parent	***Entities under common control***	***Others***	***Parent***	***Entities under common control***	***Others***
Income and expenses						
Insurance revenue	10	262	325	–	157	379
Insurance service expense	11	(229)	(450)	(65)	(103)	(321)
Depreciation and amortization expenses	8	–	–	–	36	–
Net other operating income	2	–	–	–	–	–
Interest expense	1	–	–	(2)	–	–
	22	**33**	**(125)**	**(67)**	**90**	**58**

Compensation of key management personnel (2023: 5 persons; 2022: 5 persons) comprised the following:

	2023	*2022*
Salaries and bonuses	23	23
Total key management compensation	**23**	**23**