HUALING INSURANCE JSC

The Management Report and International Financial Reporting Standards Financial Statements

31 December 2019

HUALING INSURANCE

Management Report

Year 2019

JSC Hualing Insurance

Management Report 2019

Content

Company Profile

Basisbank's subsidiary, Hualing Insurance (HI), was established in 2017. Although the company is a relatively new player in the market, in 2019 it still managed to gain recognition and customer confidence and ended the year with total assets of GEL 16 million and net profit of 1.6 million GEL.

Our Mission is make insurance business simple and easy for everyone.

Our Vision is to be client's preferred insurer in Georgia by providing simple and transparent services.
Our values are - Simplicity, fairness and innovation

Transparent relationship is the company's priority while conducting business. Currently Hualing Insurance offers customers a variety of insurance products, (except health and agro insurance) for both retail and corporate segment. Simultaneous to simple and easily accessible insurance services we strive to be innovative and adopt advanced technologies to introduce the market with a disruptive sales channels.
Based on the universally recognized Bancassurance (BIM) model, HI effectively utilizes partner bank resources and provides fast and flexible insurance products all over the country. Customers can use Hualing Insurance Services in all the cities and regions where Basisbank branches operate. With this approach "financial holding BasiBank" also benefits, as it increase the level of satisfaction of its current and potential customers, because in this way it provide customers not only with banking, but also with other financial products, making it a so-called "financial supermarket" where full service is provided in a simple manner and with a "single window" principle. Customer-centric approach is the key to the success of our group. Services which our financial group provides in a "single window principle" includes: banking products, insurance products, leasing and factoring.
Other competitive advantages of Hualing Insurance include: digital sales, swift and easy claims settlement process, highly reputable reinsurers, flexible and simple products, strong shareholder structure, and solid professional staff. These advantages enable the company to maintain and increase flexibility and be accessible to clients across the country, with simple governance structure and effective decision-making process.

All actions made by Hualing Insurance in 2019 were aligned to its core values (Simplicity, fairness and innovation). Some of the key news that were introduced to our customers were: 1) new website www.hi.ge which gives possibility to our customer to easily acquire insurance products remotely; 2) Partnership with Digital business like car rentals, have been launched, hence our customers can rent a car and automatically activate our car rental insurance policy remotely; 3) Several new products with minimal exclusions for vehicle and property insurance were introduced to retail market; 4) credit life insurance product was launched for our corporate customers;

Parent company

Basisbank is a distinguished member of the Georgian financial market, which has been successfully providing financial services to individuals and small and medium business segment for 26 years. Up to 510 employees serve more then 132,000 clients of Basisbank in 24 branches in different cities of Georgia.

Its main shareholder is Xinjiang Hualing Industry & Trade (Group) Co Ltd, the Chinese conglomerate, the largest shareholder in Georgia, which bought 90% of the bank's shares in 2012, and today their share is 92.305%. First entering the Georgian market in 2006, Hualing Group invested 550 million USD in Georgia.

Basisbank ranks 4th in the market with 1.7 billion GEL in assets. Basisbank has a solid capital base and high quality assets, which is reflected in the rating affirmed by FITCH in 2019: Issuer's Default Rating B + (with stable outlook).

The bank is tasked to be a powerful financial group, encompassing a full range of financial services - banking, insurance and leasing, enabling it to become a more powerful player in the market by acquiring a significant market share, be well-positioned in its growth objectives and attain a wider network, backed by a strong customer base and a healthy capital structure.

The bank has built its brand identity around three principles. These are: speed, quality and flexibility. Loyal professionals of the bank are guided by these corporate values when working with clients on a daily basis.

In order to strengthen and increase its competitive position, provide a full range of financial services to customers and acquire a broader customer base, in 2017 the bank took the decision to move to the new sectors of the financial industry, achieve a better diversification of its services and substantial business integrity by enhancing its business activities in two strategic areas: insurance and leasing. Under the Basisbank umbrella there are three subsidiaries: Hualing Insurance, BHL Leasing and BAMH Asset Holding. Coordinated work of all three wings allows the group to synergize resources, save time and provide better access to products in the Georgian market.

Prerequisite for Establishing the Company

"Basisbank financial holding"- Group (hereinafter referred to as the "Group") works to fulfill its strategic task of being a bespoke provider of comprehensive financial products to its clients using a "single window concept" which is in its turn based on in-depth financial expertise and comprehensive knowledge of industry sectors. The group's subsidiaries have recently started operations and have already contributed to the group's financial performance by generating 4.4% of the profit in overall Group's profitability in 2019.

Company’s Development Strategy

Hualing Insurance will provide more then 132,000 customers of the group with a single, comprehensive financial service through both Basisbank branches and remote channels. Beneficial services that our group offers include: insurance (life, auto insurance, business continuity, construction risks, property, etc.) also loans, letters of credit and guarantees, exchange, remittances, operation services, deposits, a variety of leasing choices and factoring will be an accompanies products offered to our clients.

In order to provide a full range of services on a "single window basis", the group intends to create a unified virtual platform for users. Insurance and leasing products will be integrated with the current online banking platform in Basisbank. A sales portal for bank employees was created in 2019, through which standardized insurance products will be sold from the bank's desk and standardized retail leasing applications will be submitted.

HI recently launched a website www.hi.ge through what people can digitally acquire the product, on the top of that HI will utilize different digital platforms (Basisbank Internet Banking www.bankonline.ge; www.bank.ge; Facebook Messenger bot, and fast payment machines) to perfume active online sales. Also alliance with various digital business are targeted to boost online sales. One of them was already launched in 2019 with partnership of car rental company www.tripcars.com where our Auto insurance is bundled and sold with online car rental package.

Two important areas of the group: insurance and leasing will be a priority in the coming years. The Group continues to actively develop these areas through the cross-selling of products to target customers. Such an approach makes the group a powerful financial center that will have a full range of financial services.

By maintaining a healthy financial stance, the group continues to strengthen its position in its strategic segment - small and medium-sized businesses, corporate and retail business. It will pay more attention to retail business activities not by increasing the branch network, but by providing products and services remotely, in the most convenient way. The group will speed up the introduction of a client-centered model with more effective coverage.

Business Report

JSC Hualing Insurance was established in December 2018. Basisbank invested GEL 4,300,000 in its initial capital. At this stage, the company is not considering entering the field of health insurance, and in the context of non-health insurance, it is determined to hold a solid position as one of the top 5 in the next 4 years.

The main focus of the company is auto insurance, as the Georgian market is practically untapped in this area and less then 10% of the currently registered car fleet is insured. To achieve high penetration in this area, Hualing Insurance primarily plans to create products that are easily understood by the population, with minimal exceptions to insurance claims and simple approaches to compensation. At the same time, great importance will be given to the simplicity of selling insurance products: the company intends to sell insurance products in areas already familiar to customers, such as: payment machines, bank, Facebook page and others.

As for customer segmentation, Hualing Insurance is equally focused on both the corporate clientele and the retail segment. Our priority towards corporate clients is flexible and transparent approach to their needs, and for the retail segment, simplicity is added to the above-mentioned priorities in both products and ways of delivering products.

In 2019 HI started creation of digital sales channels, which will be continued in 2020 and will bring big changes to the insurance company. In 2020, the company plans to invest in technology. The new, modern internal program, online sales, Facebook bot sales and customer portal will provide easy and fast service for our customers. The introduction of digital services will allow company employees to deliver even better results.

Insurance Market Review

The insurance industry in Georgia has great potential. This is especially true for life insurance and some types of compulsory insurance, as it is part of the common practice of the European Union and developed countries.

The current insurance law allows the sector to bring innovation to the market without excessive bureaucracy and at the same time maintain a stable regulatory environment in the sector.

Global practice shows that the development of the insurance sector is largely dependent on the existence of compulsory insurance in the country. Unfortunately, compulsory insurance in Georgia today is not large. Currently, the following compulsory insurance requirements apply in the field of insurance:

- Law on Compulsory Civil Liability Insurance for Car Owners Registered Abroad and Working on the Territory of Georgia.

- A Legislative Act on notaries, which implies the insurance of professional remuneration of notaries.

- A Legislative Act on Accounting, Reporting and Auditing (which includes the insurance of auditors' professional remuneration according to the decree of the Head of the Accounting, Reporting and Auditing Supervision Service).

- Law on Occupational Safety (which implies insurance of employees' compensation).

- Resolution of the Government on the definition of mass gathering and the conditions for the insurance of the obligatory civil liability of the persons responsible for it.

It should be noted that the main type of compulsory insurance in the world, which includes civil liability insurance for vehicle owners, is not yet valid in Georgia, but there are active discussions on its introduction and if done, it will substantially increase the insurance market.

Voluntary health insurance accounts for the largest share of the total insurance portfolio (37%), but it should be noted that it only slightly increases on an annual basis and, unlike car and property insurance, it is unlikely that there will be a breakthrough in this area, which will significantly change the current picture and make the area more promising.

It should be noted that in terms of regulation, the insurance sector supervisor has introduced several important norms in 2019 and targets to introduce some more in near future:

- Determining the risk-based net delay (reinsurance) ratio (2019);
- Regulation on insurance intermediaries (2019);
- Rise of minimal capital requirement up to GEL 7.2 million (31 December 2020)
- Implementation of Solvency II standards (2022/23).

Risk Management

Each member of the company’s team is focused on delivering products to current and potential customers that are simple and tailored to their needs, which is preceded by an in-depth study of risks and the right approach to underwriting policy.

Hualing Insurance assesses all possible risks and determines the company's so-called reasonable risk appetite.

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

The frequency and severity of annual claims may be higher than expected, regardless of the statistical analysis performed. That is why the company has introduced specific guidelines for underwriting and reinsurance, which allows to fully analyze the risk and implement appropriate procedures to provide the company's clients with adequate conditions.

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

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

Hualing Insurance has also acquired Treaty Reinsurance with top-rated reinsurance companies for both life and non-life insurance. The company also works to protect the interests of customers with trusted and highly rated companies in the area of facultative reinsurance. The list of partners of the company includes reinsurance companies and reinsurance brokers, active in Lloyd's and other international markets, which confirms their high reputation and stability.

HI’s overall view on risk management is to mitigate risks by diversifying own portfolio, precise underwriting, continue ongoing process of reinsuring risk of possible significant claims exposure as well as to minimize the effect of foreign exchange currency fluctuation and to maintain the surplus of the Supervisory Capital as a buffer to absorb all possible risks on the insurance market.

Corporate Governance

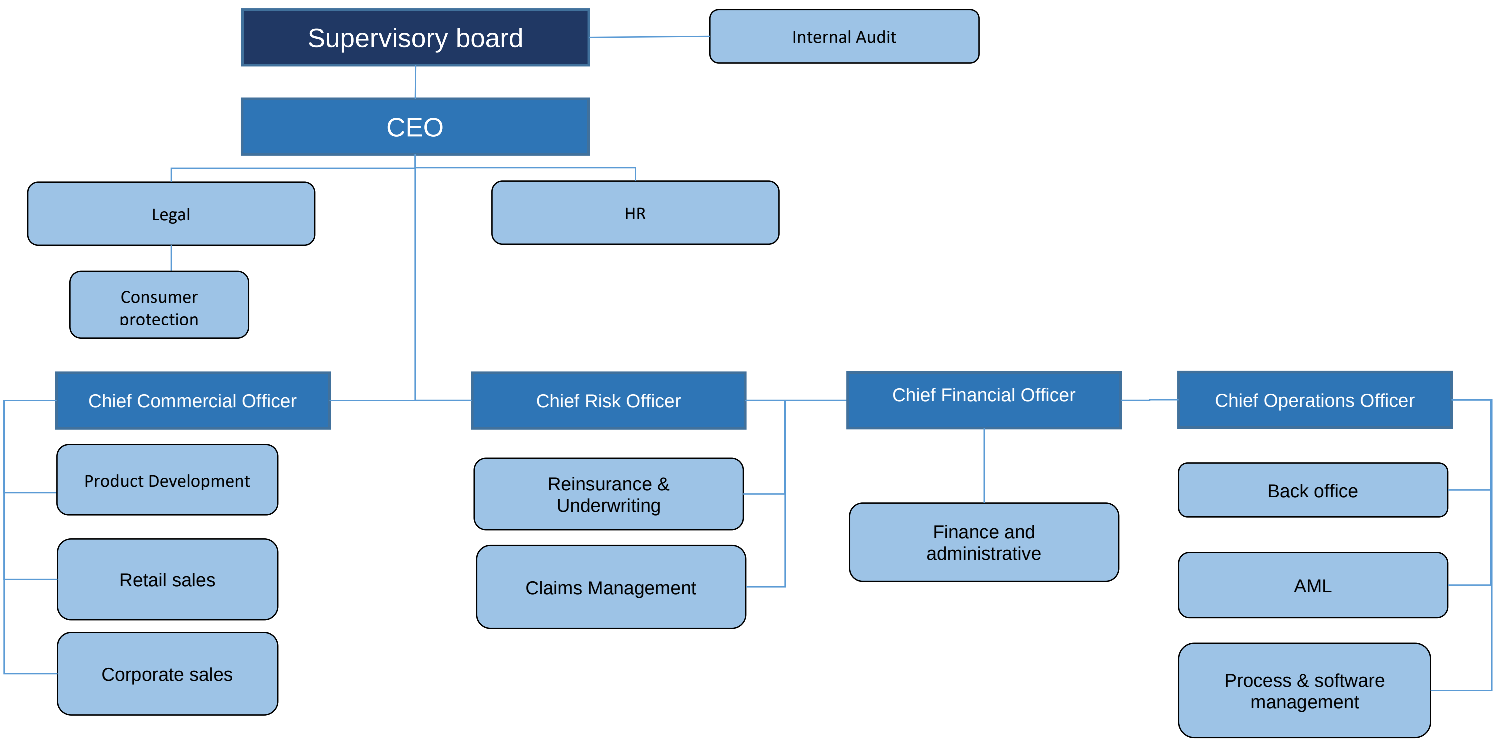
The governing bodies of Hualing Insurance are: the General Meeting of Shareholders, the Supervisory Board and the Directorate.

The General Meeting of Shareholders is the highest governing body of the company. It conducts the general meetings of shareholders. The assembly makes important decisions for the company, such as: amendments and additions to the charter, putting stocks on the market, electing a supervisory board and approving its budget, approving an annual audited financial report, distributing and using net profits, raising/lowering capital.

The Supervisory Board determines the company's operations policy, gives relevant instructions and guidance to its directorate. The Supervisory Board is elected by the General Meeting of Shareholders. It carries out the general management of the company's activities, makes decisions on the strategic directions of the company's development, ensures the establishment of a reliable and efficient internal control and risk management systems, supervises the activities of executive bodies and is responsible for its activities and is accountable for its actions before the General Meeting of Shareholders. The Supervisory Board consists of 3 (three) members. The members of the Supervisory Board shall be elected by the General Meeting of Shareholders for a term of 4 (four) years, but their term of office shall continue after the expiration of this term, prior to the convening of the next General Meeting of Shareholders. The repetitive election of the Board members is not limited. The General Meeting may remove the Board member before the end of the term at any time. The Supervisory Board appoints the General Director and his deputies and oversees their activities, and selects the auditor of the company. The board can control and verify the company's financial documentation as well as property facilities. The Board shall review the annual reports, the profit distribution proposal and report to the General Meeting thereon.

The directorate conducts its activities in accordance with the policy defined by the Supervisory Board, and acts to ensure the daily functioning of the company. The directorate consists of the General Director (who leads the work of the Directorate) and 4 (four) Deputy General Directors - in the areas of commerce, operations, risk, finance. The authority and full representative authority of the General Director and Deputy General Directors shall include the right to make decisions on behalf of the Company and to communicate with third parties on behalf of the Company within the scope of their authority and competence.

Hualing Insurance Structure:



Composition of Hualing Insurance Supervisory Board:

Mi Zaiqi - Chairman

In parallel with being the Chairman of the Supervisory Board of JSC Hualing Insurance, Mi Zaiqi is the Vice-Chairman of the Supervisory Board of JSC Basisbank and the Chairman of the Supervisory Board of BHL Leasing. Mi Zaiqi obtained a degree in Business Administration from the University of California. From 2011 to present, Mi Zaiqi has been the Deputy Director of the Xinjiang Hualing Trading and Industry Group, i.e. the Deputy General Manager of the Hualing Group, and the General Manager's Administration Director of the Hualing Group Georgia. From 2010 to 2011, he served as Assistant Director at Hualing Real Estate Development Company, and from 2005-2006 as Assistant General Manager at the Hualing Hotel.

David Tsaava - Member

Member of the Supervisory Board of Hualing Insurance since December 2017. Member of the Supervisory Board of Basisbank's other subsidiary, BHL Leasing, from the same period to the present. General Director of Basisbank since 2011. 2015-2018: Member of the Basisbank Supervisory Board.

Davit Tsaava has 14 years of experience working in the financial field. His career in Basisbank began in 2004 as a loan officer, and until 2008 he headed the corporate lending department. In 2008-2010 he was appointed as the director of the corporate direction, and in 2010-2011 he was the general director.

Davit Tsaava obtained a bachelor's degree in banking and finance from Tbilisi State University, a Master's Degree in business administration from Sokhumi State University and a PHD in business administration from the Georgian Technical University.

Li Hui - Member

In addition to being a member of the Supervisory Board of JSC Hualing Insurance, Li Hui is the Deputy General Manager of JSC Basisbank for Credit and a member of the Supervisory Board of JSC BHL Leasing. 2015-2018: Member of the Supervisory Board of JSC Basisbank. Li Hui has a bachelor's degree in accounting. She has been working in the financial sector since 1993. At various times she worked as an accountant and loan officer. She has extensive management experience and familiarity with the banking business. Li Hui headed the loan approval department at Urumqi Commercial Bank. She was then the Deputy Head and Deputy Director of the Credit Department of the Urumqi Credit Cooperatives. Li Hui joined the Board of Directors of Basisbank in 2015. She oversees large loans.

The composition of the directorate of the company Hualing Insurance is:

HUALING INSURANCE

<u>Composition of Hualing Insurance Management Board:</u>

Kote Sulamanidze – Chief Executive Office

Current positions:

- CEO at JSC Hualing Insurance since February 2019;
- CEO of BHL leasing (Groups' another daughter company) since January 2019;

Mr. Sulamanidze is a C-suite professional with over 17 years of leadership experience in commercial Banking/Insurance/Leasing and Financial Sector Supervisory Agencies operating in Georgia. Before joining the Group, he served as a CEO at Insurance State Supervision Agency of Georgia. He was also CEO at Progress Bank and a Chief Lending Officer at Bank Republic Societe Generale group. His professional background also covers being CEO at Financial Supervision Agency of Georgia and several management positions at VTB bank.

Mr. Sulamanidze has obtained a PhD degree in banking risk management and holds MBA degree from Hult international Business School while living in the USA & UK.

Lia Aslanikashvili – Chief financial Officer

Deputy General Director of JSC "Hualing Insurance" in the area of finance since December 2017. Chief financial Officer of BHL Leasing, a member of the Basisbank Group, since December 2018. 2017-2018: Lia Aslanikashvili has also been the Deputy General Director for Finance at JSC Basisbank since 2012. Lia Aslanikashvili has 20 years of experience working in the banking sector. In 1999-2002 she was the manager of the International Operations Department of the bank, in 2002-2005 she was the head of the same department. In 2005-2007 she headed the Settlements Department, and in 2007-2008 she became the head of the Treasury Department. From 2008 to 2012, she served as Financial Director.

Lia Aslanikashvili holds a Master's Degree in International Economic Relations from Tbilisi State University.

Nino Chedia – Chief Commercial Officer

Prior to becoming Chief Commercial Officer at Hualing Insurance, Nino Chedia headed the Marketing Department of Basisbank. She has 16 years of experience working in the financial field. Associate Professor Nino Chedia holds a Master's degree from the University of Oxford in the areas of strategic management, organizational behavior, and leadership. She holds a Master's Degree in Finance (MBA) from the Caucasus School of Business, a Bachelor's degree in Marketing from the Caucasus Business School, and a Bachelor's degree in Economic Informatics from the

Georgian Technical University. She studied management at one of the most prestigious business schools in Central Europe, IEDC Bled School of Management, Slovenia. For 8 years she has been teaching at various business schools, including abroad. Nino Chedia has extensive experience in project management, including company transformation, organizational change, commercial business and corporate culture.

Shota Svanadze – Chief Risk Officer

Before becoming the Chief Risk Officer at Hualing Insurance, Shota Svanadze was the Deputy Director of Aldagi Insurance Company. Over the years, since 2004, he has held various managerial positions at the same company. Shota Svanadze has 16 years of experience working in the field of insurance. In 2013, he received a degree in finance management from the Free University, in 2008 he passed the Basic Management Program (Pre-MBA) of the same university and ESM. In 2004 he received a bachelor's degree in international economics from the Georgian Technical University.

Levan Pitiurishvili – Chief Operations Office

Before becoming the Chief Operations Officer at Hualing Insurance, Levan Pitiurishvili was Head of Back Office Department in Hualing Insurance. He has been working in banking business for 15 years. Changed several managerial positions in both JSC Bank Republic and JSC Bank of Georgia, as Head of Back Office Division and as Deputy head of settlements. He received the Certification of Professional Accountants and Auditors (ACCA) in 2006. Levan Pitiurishvili received a degree in preventive medicine in 2000.

HUALING INSURANCE JSC

International Financial Reporting Standards
Financial Statements

31 December 2019

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Independent Auditor's Report

To the Shareholder and Management of JSC Hualing Insurance

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Hualing Insurance as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. The other information comprises the Management Report (but does not include the financial statements and our auditor's report thereon).

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

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

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information given in the Management Report complies with the requirements of paragraph 6 of article 7 of the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Georgia LLC

PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

15 April 2020
Tbilisi, Georgia

PricewaterhouseCoopers Georgia LLC

Digitally signed by PricewaterhouseCoopers Georgia LLC
Date: 2020.04.15 22:12:42 +04'00'

Financial statement captions	Notes	31-Dec-19	31-Dec-18 (restated)
Cash and cash equivalents	9	514,554	367,965
Bank deposits	10	7,240,324	6,035,690
Investment securities held to maturity	11	300,095	-
Insurance receivables	12	3,725,714	2,097,066
Ceded share of insurance contract reserves	13	3,515,339	1,913,982
Deferred acquisition costs		-	7,683
Other assets	14	107,107	49,027
Property and equipment		52,022	25,153
Intangible assets		67,294	23,909
TOTAL ASSETS:		**15,522,449**	**10,520,475**
Share capital	17	4,300,000	4,300,000
Retained earnings		1,594,721	6,340
Profit for the year		1,640,052	1,588,381
TOTAL EQUITY:		**7,534,773**	**5,894,721**
Insurance contract reserves	13	4,425,250	2,433,404
Reinsurance commission reserve		406,032	150,529
Reinsurance payables		2,840,049	1,706,306
Current income tax liability	24	35,358	269,716
Deferred income tax liability	24	3,244	6,547
Other financial liabilities	16	147,850	49,174
Other liabilities	15	129,893	10,078
TOTAL LIABILITIES:		**7,987,676**	**4,625,754**
TOTAL LIABILITIES & EQUITY		**15,522,449**	**10,520,475**

Approved for issue and signed on behalf of the Board of Directors on 15 April 2020.

Konstantine Sulamanidze
General Director

Lia Aslanikashvili
Chief Financial Officer

Financial statement captions	Notes	2019	2018 (restated)
Gross written premiums		9,681,963	5,441,795
Written premiums ceded to reinsurers		(6,141,195)	(2,738,499)
Net premiums written	18	**3,540,768**	**2,703,296**
Change in the gross reserve for unearned premiums		(1,832,641)	(2,350,550)
Reinsurers share of change in the reserve of unearned premiums		1,447,759	1,904,142
Net earned premiums	18	**3,155,886**	**2,256,888**
Interest income		751,301	491,042
Reinsurance commission income		435,282	42,644
Total income		**4,342,469**	**2,790,574**
Claims settled		(1,527,863)	(101,063)
Reinsurance share in claims settled		1,036,511	21,981
Change in outstanding claims		(159,205)	(82,855)
Reinsurance share in change in outstanding claims		153,599	9,840
Subrogation and recoveries		178,119	6,177
Net claims incurred	19	**(318,839)**	**(145,920)**
Salaries & other employee benefits	21	(1,160,923)	(324,457)
General and administrative expenses	21	(556,134)	(145,399)
Acquisition costs		(45,057)	(41,197)
Impairment charge	23	(70,587)	-
Depreciation		(10,502)	(1,327)
Amortization		(4,616)	(91)
Foreign exchange gain/losses		12,038	12,918
Other operating expenses	22	(261,287)	(281,575)
Income/(loss) before tax		**1,926,562**	**1,863,526**
Income tax (expense)/credit	24	(286,510)	(275,145)
Net income/(loss)		**1,640,052**	**1,588,381**
Other comprehensive income/losses		-	-
TOTAL COMPREHENSIVE INCOME/LOSSES FOR THE YEAR		**1,640,052**	**1,588,381**

The statement of profit or loss and other comprehensive Income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 5 to 41.

	31-Dec-19	31-Dec-18 (restated)
Cash flows from operating activities		
Insurance premium received	5,029,222	2,502,991
Reinsurance premium paid	(1,211,164)	(242,159)
Net insurance premium received	**3,818,058**	**2,260,832**
Insurance claims paid	(801,385)	(50,167)
Salaries and benefits paid	(1,077,223)	(319,277)
Cash paid to other suppliers of goods and services	(45,215)	(124,710)
Interest received on bank current accounts	23,743	17,948
Cash received from subrogation and recoveries	77,393	-
Commission received from reinsurers	35,502	-
Other operating expenses paid	(483,711)	(121,399)
Net cash flows from operating activities before income tax	**1,547,162**	**1,663,227**
Income tax paid	(524,124)	-
Net cash flows from operating activities	**1,023,038**	**1,663,227**
Cash flows used in investing activities		
Acquisition of property and equipment	(91,396)	(44,455)
Placement on bank deposits	(7,650,000)	(5,945,336)
Repayment of bank deposits	6,645,336	-
Interest received	526,202	383,047
Investment in assets held to maturity	(300,000)	-
Net cash flows from used in investing activities	**(869,858)**	**(5,606,744)**
Cash flows from financing activities		
Proceeds from borrowings	48,000	-
Repayment of borrowings	(48,354)	-
Net cash flows from financing activities	**(354)**	**-**
Effect of exchange rates changes on cash and cash equivalents	(6,237)	4,023
Net increase in cash and cash equivalents	**146,589**	**(3,939,494)**
Cash and cash equivalents at the beginning of the year	**367,965**	**4,307,458**
Cash and cash equivalents at the ending of the year	**514,554**	**367,964**

	Share Capital	Retained Earnings	Total Equity
Balance as at 01 January 2018	**4,300,000**	**6,340**	**4,306,340**
Profit for the year 2018 (restated)	-	1,588,381	**1,588,381**
Balance at 31 December 2018 (restated)	**4,300,000**	**1,594,721**	**5,894,721**
Profit for the 2019	-	1,640,052	**1,640,052**
Balance at 31 December 2019	**4,300,000**	**3,234,773**	**7,534,773**

1 Reporting entity

(a) Organization and operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019 for JSC Hualing Insurance (the “Company”).

JSC “Hualing Insurance” was incorporated in 11 December 2017 and is domiciled in Georgia. Registering body is Revenue Service of Georgia, Tax code 406232214. The Company’s registered address is 1 Ketevan Tsamebuli Avenue, Tbilisi 0103, Georgia. The Company is a joint stock company limited by shares and was set up in accordance with Georgian regulations. As of 31 December 2019 and 2018, the Company’s immediate parent company was JSC “Basis bank” incorporated in Georgia. As of 31 December 2019 and 2018 ultimate shareholder of the Company were Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People’s Republic of China (92.305%), Mr. Mi Zaiqi (6.969%) and other minority shareholders 0.726%.

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

(b) Georgian business environment

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

2 Basis of accounting

Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. They have been prepared under the historical cost convention.

The Company has applied temporary exemptions from IFRS 9 *Financial Instruments* as permitted by IFRS 4 Insurance Contracts (more than 95% of the company’s liabilities comprise of insurance liabilities) and has not previously adopted any version of IFRS 9, including the requirements from the presentation of gains and losses on financial liabilities designated FVTPL, for annual periods beginning before 1 January 2018. Company plans to have a single date of initial application of 1 January 2021 of whole IFRS 9.

3 Functional and presentation currency

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

4 Use of estimates and judgements

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

4 Use of estimates and judgements (Continued)

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

Management has not made any critical judgments apart from those involving estimations in the process of applying the company's accounting policies that have a significant effect on the amounts recognised in these financial statements.

Assumptions and sensitivities

Process used to determine the assumptions

The assumptions used in the estimation of insurance assets and liabilities are intended to result in reserves which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

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

The Company makes estimate of the ultimate liability arising from claims under life insurance contracts that are incurred but not yet reported at the reporting date. The ultimate cost of IBNR is calculated by using actuarial method for life insurance. The primary underlying assumption of the method are mortality rates in Georgia, maximum delay period for reporting of claims and monthly probability of claim identification.

The carrying amount of IBNR reserve net of reinsurance as at 31 December 2019 was 4 thousand GEL (2018: 0 thousand GEL).

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

5 Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Foreign currency transactions

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

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

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

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

5 Significant accounting policies (Continued)

(b) Insurance contracts

(i) Classification of contracts

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

Insurance risk is risk other than financial risk.

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

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

Financial guarantee contracts are accounted for as insurance contracts.

(ii) Recognition and measurement of contracts

Premiums

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

Policy cancellations

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

Unearned premium reserve

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

(iii) Gross carrying amount and write – offs

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

5 Significant accounting policies (Continued)

Claims

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

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

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

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

(iv) Reinsurance

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

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

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

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

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

(v) Deferred commission income

The Company receives commissions for ceding premiums to reinsurers. This type of commission is recognised within insurance activity result in profit or loss. Commission income from ceded reinsurance premiums that represent the recovery of acquisition costs reduces the applicable unamortised acquisition costs in such a manner that net acquisition costs are capitalised and

charged to expenses in proportion to net insurance income recognised. Changes in deferred commission income on reinsurance ceded are disclosed in the statement of profit or loss and other comprehensive income.

(vi) Acquisition costs

Acquisition costs represent commissions paid to insurance agents and brokers and other costs directly related to acquisition. Acquisition costs become due when customers that were attracted by the relevant insurance agents and brokers pay insurance fee to the Company.

5 Significant accounting policies (Continued)

(vii) Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums for each line of business which are managed together. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified an additional reserve (unexpired risk reserve) is established. The deficiency is recognised in profit or loss for the year. During 2019 and 2018 no shortfall was identified.

(viii) Insurance receivables and payables

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

(c) Financial instruments

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

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

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

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

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

(ii) Derivative financial assets and financial liabilities

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a company of financial assets and financial liabilities on

the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Loans and receivables

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

Cash and cash equivalents

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

5 Significant accounting policies (Continued)

(iii) Non-derivative financial liabilities - measurement

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

(iv) Offsetting

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

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

(v) Gains and losses on subsequent measurement

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

(vi) Share capital

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

(d) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired can include:

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

Financial assets measured at amortised cost

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

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

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

5 Significant accounting policies (Continued)

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

(ii) Non-financial assets

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

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

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

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

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

(e) Income tax

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

(i) Current tax

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

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

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

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

5 Significant accounting policies (Continued)

(ii) Deferred tax

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1st January 2023 against which the temporary differences, unused tax losses and credits

can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1st January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

(f) Correction of errors

Restatement of prior year financial statements

During 2019, the Company has identified prior year errors related to recognition and presentation of Incurred but not reported claims reserve (IBNR), reinsurance receivables and reinsurance payables balances, other liabilities, and cash flows from investing and operating activities. The nature of these errors and its effect on the comparative primary statements are as follows:

Statement of financial position and Income statement restatement:

- The Company recognized IBNR reserve for all types of insurance products. Except for life insurance, the local regulation requirements state that in case claims are not reported on the date when they are occurred no reimbursements shall be made by the Company. The insurance policies also reflect this requirement by explicit statement therein. Accordingly, IBNR is not applicable for insurance products other than life insurance. Recognition of IBNR reserve for non-life insurance products caused understatement of 2018 profit and overstatement of Insurance contract reserves.

- Payments with certain reinsurers are made on a net basis, as prescribed in the respective contracts. At of 31 December 2018 the Company did not off-set reinsurance receivable and payable balances and accordingly both balances were overstated.

- Other financial liabilities, other liabilities and current income tax liability were disclosed together as other liabilities on the face of balance sheet. These balances should have been presented as separate financial statement line items.

Statement of cash flows:

**Statement is prepared using direct method.*

- Cash invested in bank deposits (more than three months term deposits) as well as interest accrued (and not received yet) on those deposits were mistakenly classified as cash and cash equivalents. In order to arrive at the year-end balance, interest accrued on deposits was disclosed as operating cash inflow under operating activities. According to Company’s accounting policy, placing amount on bank deposits (with the maturity of more than three months) should be classified as investing activity. In addition, the interest accrued on deposits that are classified as investing activity is a non-cash transaction until the deposits have matured and interest is received to the current bank account. Therefore, accrued interest should be eliminated from the cash flow statement.

5 Significant accounting policies (Continued)

- Interest received on bank deposits (with a maturity of more than three months) and current accounts was incorrectly classified as cash inflow from financing activities, whereas they should have been classified as cash inflow from investing activity and cash inflow from operating activity, respectively. According to Company's accounting policy, interest received on bank deposits with a maturity of more than three months should be presented within investing activity**.**

The effect of these changes on the presentation of IFRS financial statements is set out below:

Effect on the Statement of Profit or Loss and other Comprehensive Income	**2018 as originally presented**	**Adjustment**	**2018 Restated**
Change in outstanding claims	218,011	(135,156)	82,855
Total comprehensive income for the year	**1,453,225**	**135,156**	**1,588,381**

Effect on the Statement of Financial Position	**31 December 2018 as originally presented**	**Adjustment**	**31 December 2018 Restated**
Reinsurance receivables	192,449	(192,449)	-
Total assets	**10,712,924**	**(192,449)**	**10,520,475**
Insurance contract reserves	2,568,560	(135,156)	2,433,404
Reinsurance payables	1,898,755	(192,449)	1,706,306
Other liabilities	328,969	(318,891)	10,078
Other financial liabilities	-	49,174	49,174
Current income tax liability	-	269,716	269,716
Total liabilities	**4,953,359**	**(327,605)**	**4,625,754**
Total equity:	**5,759,565**	**135,156**	**5,894,721**
Total equity and liabilities:	**10,712,924**	**(192,449)**	**10,520,475**

Since the Company started its operations in December 2017, comparative numbers for the earlier period are equal to zero, therefore the third statement of financial position as of 1 January 2018 is not presented.

5 Significant accounting policies (Continued)

Effect on the Statement of Cash flow	31 December 2018 As originally presented	Adjustment	31 December 2018 Restated
Cash flows from operating activities:			
Interest received on current accounts	-	17,948	17,948
Other operating (expenses paid) / income received	(31,353)	(90,046)	(121,399)
Cash flows from investing activities:			
Interest received on bank deposits	-	383,047	383,047
Cash placed on bank deposits	-	(5,945,336)	(5,945,336)
Cash flows from financing activities:			
Interest received	400,995	(400,995)	-
Cash and cash equivalents at the ending of the year	**6,403,348**	**(6,035,383)**	**367,965**

6 Adoption of New or Revised Standards and Interpretations

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Company decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- accounting for operating leases with a value less than 5 thousand USD equivalent in GEL as low value leases,
- applied modified retrospective approach,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

As a result, no lease liability and right-of-use asset was recognised. All lease contracts were considered as low value or short-term leases, in total immaterial.

7 New Standards and Interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Company has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Company is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard allows companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility. The Company decided to defer adoption of IFRS 9 and met the related qualifying conditions because (i) its liabilities connected with insurance exceeded 90% of total liabilities at 31 December 2018 and (ii) there were no subsequent substantial changes in the entity's activities. The Company expects to apply IFRS 9 from 2021.

7 New Standards and Interpretations not yet adopted (Continued)

We provide the following disclosures about our financial assets as of 31 December 2018 in order to enable comparison with entities that apply IFRS 9 from 1 January 2019:

2019	Assets that are solely payments of principal and interest (SPPI)		Carrying value (IAS 39) of assets that are solely payments of principal and interest analyzed by credit rating (gross carrying value in the case of assets at amortized cost)			Fair value of assets rated BB – B- or without rating (excluding low credit risk assets)
	Fair Value	**Fair value gains / (losses) for the year**	**BB-B-**	**Without rating**	**Total for ratings BB – B- and without rating**	
Held to maturity financial assets:						
Promissory note	300,095	-	300,095	-	300,095	300,095
Total held to maturity financial assets	**300,095**	**-**	**300,095**	**-**	**300,095**	**300,095**
Loans and receivables:						
Bank deposits	7,240,324	-	3,226,742	4,013,582	7,240,324	**7,240,324**
Cash and cash equivalents	514,554	-	514,262	291	514,553	**514,553**
Total financial assets at amortized cost	**7,754,878**	**-**	**3,741,004**	**4,013,873**	**7,754,877**	**7,754,877**

We provide the following disclosures about our financial assets as of 31 December 2018 in order to enable comparison with entities that apply IFRS 9 from 1 January 2018:

2018	Assets that are solely payments of principal and interest (SPPI)		Carrying value (IAS 39) of assets that are solely payments of principal and interest analyzed by credit rating (gross carrying value in the case of assets at amortized cost)			Fair value of assets rated BB – B- or without rating (excluding low credit risk assets)
	Fair Value	**Fair value gains / (losses) for the year**	**BB-B-**	**Without rating**	**Total for ratings BB – B- and without rating**	
Loans and receivables:						
Bank deposits	6,035,690	-	4,115,066	1,920,623	6,035,689	6,035,689
Cash and cash equivalents	367,965	-	357,810	10,155	367,965	367,965
Total financial assets at amortized cost	**6,403,655**	**-**	**4,472,876**	**1,930,778**	**6,403,654**	**6,403,654**

7 New Standards and Interpretations not yet adopted (Continued)

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of company's of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the company of contracts (the contractual service margin). Insurers will be recognising the profit from a company of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a company of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements.

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

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'.

The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a company of similar assets). The amendments are prospective and the Company will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements.

***Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)*.** The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimizes any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark

7 New Standards and Interpretations not yet adopted (Continued)

on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis.

In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Company is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

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

8 Accounting Policies for leases before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, Leases, are as follows.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

8 Accounting Policies for leases before 1 January 2019 (Continued)

Finance lease liabilities. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

9 Cash and cash equivalents

	2019	2018
Current Accounts	514,554	367,965
Total cash and cash equivalents	**514,554**	**367,965**

Credit ratings of cash and cash equivalents were as follows:

	2019	2018
BB	62,511	191,129
BB-	320,273	-
B+	131,478	166,681
Not rated	292	10,155
Total	**514,554**	**367,965**

10 Bank deposits

	2019	2018
JSC Credo Bank	3,000,000	-
JSC Pasha Bank	2,970,000	-
JSC Finca Bank	660,000	1,680,000
JSC Tera Bank	170,000	165,336
JSC Hayk Bank	100,000	100,000
JSC Basis Bank	50,000	4,000,000
Total bank deposits	**6,950,000**	**5,945,336**

Out of total amount of deposit placed at 6,950 thousand in Bank, 4,200 thousand GEL is attributable to minimum capital requirements set by the Insurance State Supervision Service of Georgia.

Bank deposit balances are neither past due nor impaired. Bank deposits are represented by placements with Georgian commercial banks with maturity of less than two years and earn annual interest of 10% to 12.5%. Bank deposit placed with related party (Basis Bank JSC) earn annual interest rate of 10% to 11% (note 30).

10 Bank deposits (Continued)

Accrued interest	**2019**	**2018**
JSC Credo Bank	132,556	-
JSC Pasha Bank	97,265	-
JSC Finca Bank	39,260	64,110
JSC Tera Bank	11,766	11,177
JSC Halyk Bank	4,776	5,068
JSC Basis Bank	4,701	9,999
Total accrued interest	**290,324**	**90,354**

Credit ratings of placements with banks were as follows:

	2019	**2018**
BB	104,776	105,068
BB-	3,067,265	-
B+	54,701	4,009,998
Not rated	4,013,582	1,920,624
Total	**7,240,324**	**6,035,690**

As at 31 December 2019, 6,900 thousand GEL, out of total balance of bank deposits shall mature in 2021. As at 31 December 2019 38,500 GEL from deposits placed in parent company was pledged under a Guarantee agreement (note 30).

11 Investment securities held to maturity

Carrying amount as of 31 December 2018	**-**
Purchases	300,000
Interest income accrual	95
Carrying amount as of 31 December 2019	**300,095**

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

12 Insurance receivables

	2019	**2018**
Insurance receivables, gross:		
Life insurance contracts	*17,649*	*246*
General insurance contracts	*3,778,652*	*2,096,820*
Less - provision for impairment for amounts due from policyholders:		
General insurance contracts	*(70,587)*	-
Insurance receivables, net:	**3,725,714**	**2,097,066**

13 Insurance contract reserves and Ceded share of insurance contract reserves

	2019	2018 (restated)
Insurance contract reserves		
Unearned premiums reserves	4,183,191	2,350,550
Reported but not settled claims	237,856	82,846
Incurred but not reported claims	4,203	8
Total insurance contract reserves	**4,425,250**	**2,433,404**
Ceded share of insurance contract reserves		
Unearned premiums reserves	(3,351,901)	(1,904,142)
Reported but not settled claims	(163,438)	(9,840)
Ceded share of insurance contract reserves	**(3,515,339)**	**(1,913,982)**
Insurance contracts reserves net of reinsurance		
Unearned premiums reserves	831,290	446,408
Reported but not settled claims	74,417	73,006
Incurred but not reported claims	4,203	8
Total insurance contract reserves net of reinsurance	**909,910**	**519,422**

13 Insurance contract reserves and Ceded share of insurance contract reserves (Continued)

	2019			2018		
UPR Reserve	**Unearned premium reserve**	**Reinsurers share in unearned premium reserve**	**Net**	**Unearned premium reserve**	**Reinsurers share in unearned premium reserve**	**Net**
Life Insurance	-	-	-	-	-	-
Motor Insurance	1,249,877	(779,711)	470,166	456,293	(256,424)	199,869
Property Insurance	399,021	(255,590)	143,431	208,730	(126,170)	82,560
Aviation Insurance	2,179,083	(2,178,484)	599	1,458,735	(1,458,735)	-
Third Party Liability (Compulsory)	149,655	-	149,655	120,387	-	120,387
Other	205,555	(138,116)	67,439	106,405	(62,813)	43,592
Total	**4,183,191**	**(3,351,901)**	**831,290**	**2,350,550**	**(1,904,142)**	**446,408**

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

	2019			2018		
RBNS Reserve	**Reported but not settled claims**	**Reinsurers share of Reported but not settled claims**	**Net**	**Reported but not settled claims**	**Reinsurers share of Reported but not settled claims**	**Net**
Life Insurance	5,655	(5,090)	565	-	-	-
Motor Insurance	88,377	(61,020)	27,357	30,800	(9,840)	20,960
Property Insurance	95,409	(95,409)	-	-	-	-
Aviation Insurance	-	-	-	-	-	-
Third Party Liability (Compulsory)	43,015	-	43,015	52,046	-	52,046
Other	5,400	(1,920)	3,480	-	-	-
Total	**237,856**	**(163,439)**	**74,417**	**82,846**	**(9,840)**	**73,006**

13 Insurance contract reserves and Ceded share of insurance contract reserves (Continued)

		2019			2018 (restated)		
		Insurance contract reserves	**Reinsurers' share of insurance contract reserves**	**Net**	**Insurance contract reserves**	**Reinsurers' share of insurance contract reserves**	**Net**
a	Life Insurance Contracts	9,850	(5,655)	4,195	8	-	8
b	General Insurance Contracts	4,415,400	(3,509,684)	905,716	2,433,397	(1,913,981)	519,416
	Total Insurance Contract Reserves	**4,425,250**	**(3,515,339)**	**909,911**	**2,433,405**	**(1,913,981)**	**519,424**

		2019			2018 (restated)		
		Insurance contract reserves	**Reinsurers' share of insurance contract reserves**	**Net**	**Insurance contract reserves**	**Reinsurers' share of insurance contract reserves**	**Net**
a	**At 1 January**	**8**	**-**	**8**	**-**	**-**	**-**
	Premiums written during the year	168,714	(84,644)	**84,070**	245	(78)	**167**
	Premiums earned during the year	(168,714)	84,070	**(84,644)**	(245)	78	**(167)**
	Claims incurred during the year	13,569	(12,211)	**1,358**	-	-	**-**
	Claims settled during the year	(7,922)	7,130	**(792)**	-	-	**-**
	Incurred but not reported claims	4,195	-	**4,195**	8	-	**8**
	At 31 December	**9,850**	**(5,655)**	**4,195**	**8**	**-**	**8**

13 Insurance contract reserves and Ceded share of insurance contract reserves (Continued)

		2019			2018		
		Insurance contract reserves	**Reinsurers' share of Insurance contract reserves**	**Net**	**Insurance contract reserves**	**Reinsurers' share of Insurance contract reserves**	**Net**
b	**At 1 January**	**2,433,405**	**(1,913,981)**	**519,424**	**-**	**-**	**-**
	Premiums written during the year	9,513,248	(6,056,551)	**3,456,697**	5,441,795	(2,738,421)	**2,703,374**
	Premiums earned during the year	(7,680,608)	4,609,365	**(3,071,243)**	(3,091,245)	834,280	**(2,256,965)**
	Claims incurred during the year	1,669,296	(1,177,898)	**491,398**	183,917	(31,820)	**152,097**
	Claims settled during the year	(1,519,941)	1,029,381	**(490,560)**	(101,063)	21,981	**(79,082)**
	At 31 December	**4,415,400**	**(3,509,684)**	**905,716**	**2,433,405**	**(1,913,981)**	**519,424**

14 Other assets

	2019	2018
Prepayments for goods and services	80,042	25,498
Prepayments to Compulsory Insurance Center	23,529	23,529
Salvages	3,536	-
Total Other Assets	**107,107**	**49,027**

15 Other liabilities

	2019	2018
Accruals for employee compensation	121,987	9,952
Advances received	7,645	-
Taxes payable	261	126
Total other liabilities	**129,893**	**10,078**

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

16 Other financial liabilities

	2019	2018
Payable to ISSSG	78,492	30,912
Payables for professional services	42,197	11,800
Other creditors	27,161	6,462
Total other financial liabilities	**147,850**	**49,174**

17 Equity

(a) Share capital

Number of shares unless otherwise stated	31-Dec-19	31-Dec-18
Par value	GEL1	GEL1
On issue, fully paid	**4,300,000**	**4,300,000**

As at 31 December 2019, the company had an authorized share capital of 4,300 thousand GEL (31 December 2018: 4,300 thousand GEL).

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

(b) Dividends

In accordance with Georgian legislation the company's distributable reserves are limited to the balance of retained earnings as recorded in the company's statutory financial statements prepared in accordance with IFRSs. No dividends were declared or paid in 2019 and 2018.

18 Net earned premiums

	2019	2018
Premium written on life insurance contracts	168,714	245
Premium written on general insurance contracts	9,513,248	5,441,550
Total premiums written	**9,681,962**	**5,441,795**
Change in gross reserves for general unearned premiums	(1,832,640)	(2,350,550)
Total earned premiums	**7,849,322**	**3,091,245**
Reinsurers' earned premium on life insurance contracts	(84,070)	(78)
Reinsurers' earned premium on general insurance contracts	(4,609,366)	(834,279)
Total net earned premiums	**3,155,886**	**2,256,888**

Premium written per product:

	2019	2018
Aviation Insurance	4,061,239	2,121,437
BMTPL (CIC)	2,261,523	1,656,169
Motor Insurance	2,132,779	1,162,113
Property Insurance	641,115	299,807
Life Insurance	168,714	245
Other	416,593	202,023
Total other financial liabilities	**9,681,963**	**5,441,794**

19 Net claims incurred

	2019	2018 (restated)
Life insurance claims settled	(7,922)	-
General insurance claims settled	(1,519,941)	(101,063)
Reinsurer's share of life insurance claims settled	7,130	-
Reinsurer's share of general insurance claims settled	1,029,381	21,981
Total net claims settled	**(491,352)**	**(79,082)**
Gross change in reported but not settled claims	(155,010)	(82,847)
Incurred but not reported claims	(4,195)	(8)
Reinsurer's share of change in reported but not settled claims	153,599	9,840
Subrogation and Recoveries	178,119	6,177
Net claims incurred	**(318,839)**	**(145,920)**

18 Net claims incurred (Continued)

Distribution of claims incurred for contracts entered into force during 2019 and 2018 between product types are set out below:

2019	**Claims settled**	**Reported but not settled claims**	**Total claims**	**Reinsurer's share in claims settled**	**Reinsurer's share in reported but not settled claims**	**Total reinsurer's share in claims**
Life Insurance	7,922	5,655	13,577	7,130	5,090	12,220
Motor Insurance	760,169	88,377	848,546	400,599	61,020	461,619
Property Insurance	52,995	95,409	148,404	44,862	95,409	140,271
Aviation Insurance	583,460	-	583,460	583,460	-	583,460
Third Party Liability (CIC)	122,742	43,015	165,757	-	-	-
Other	575	5,400	5,975	460	1,919	2,379
Total	**1,527,863**	**237,856**	**1,765,719**	**1,036,511**	**163,438**	**1,199,949**

2018	**Claims settled**	**Reported but not settled claims**	**Total Claims**	**Reinsurer's share in claims settled**	**Reinsurer's share in reported but not settled claims**	**Total reinsurer's share in claims**
Motor Insurance	49,953	30,800	80,753	21,981	9,840	31,821
Third Party Liability (CIC)	51,110	52,046	103,156	-	-	-
Total	**101,063**	**82,846**	**183,909**	**21,981**	**9,840**	**31,821**

20 Salaries and other employee benefits

	2019	**2018**
Salaries	898,411	242,644
Bonuses	233,240	81,813
Insurance and other benefits	29,272	-
Total salaries & other employee benefits	**1,160,923**	**324,457**

21 General and administrative expenses

	2019	2018
Marketing	229,180	31,923
Supervisory fee	78,234	30,913
Rent	64,939	21,000
Audit and consulting	43,943	23,799
Post, Telecomm, Utilities	22,122	2,493
Business trip	13,875	1,281
Bank fees and other commissions	7,492	2,446
Representative costs	6,106	4,767
Fines and penalties	4,500	3,500
Training costs	1,250	-
Repair & Maintenance	480	696
Other admin costs	84,013	22,581
Total General and administrative expenses	**556,134**	**145,399**

Professional service fee above includes GEL 42 thousand (2018: GEL 16 thousand) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

22 Other operating expenses

	2019	2018
BMTPL management fee	260,396	188,317
Other expenses	891	93,258
Total salaries & other employee benefits	**261,287**	**281,575**

23 Allowance for Impairment

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

	Insurance Receivables	Reinsurance Receivables
At 31 December 2018	**-**	**-**
Charge	(70,587)	-
At 31 December 2019	**(70,587)**	**-**

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

24 Income tax expense

Income tax expense comprises of the following:

	2019	2018
Current tax charge	289,813	281,692
Deferred tax (credit)/charge	(3,303)	(6,547)
Income tax expense for the year	**286,510**	**275,145**

The company's applicable income tax rate was 15% (2018: 15%).

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

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

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1st January 2023 and hence, no deferred income tax assets and liabilities will arise, there on.

25 Offsetting financial assets and financial liabilities

As of 31December 2019 and 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	2019			2018 (restated)		
	Gross amounts before offsetting	Gross amounts set off	Net amount after offsetting	Gross amounts before offsetting	Gross amounts set off	Net amount after offsetting
	(a)	(b)	(c) = (a) - (b)	(a)	(b)	(c) = (a) - (b)
Reinsurance receivables	1,171,827	1,171,827	-	192,449	192,449	-
Total assets subject to offsetting, master netting and similar arrangement	**1,171,827**	**1,171,827**	**-**	**192,449**	**192,449**	**-**
Reinsurance payables	4,011,876	1,171,827	2,840,049	1,898,755	192,449	1,706,306
Total liabilities subject to offsetting, master netting and similar arrangement	**4,011,876**	**1,171,827**	**2,840,049**	**1,898,755**	**192,449**	**1,706,306**

26 Capital Management

(a) Capital management objectives, policies and approach

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

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

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

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

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

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

JSC Hualing Insurance was in compliance with capital requirements set by ISSSG during 2019 and 2018.

(b) Regulatory requirements

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

The Company was in compliance with the externally imposed capital requirements as at 31 December 2019.

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

- The Regulatory Capital should be not less than either 50% of RSM or GEL 2,200 thousand throughout the period from 1 January 2017 to 1 July 2017;
- The Regulatory Capital should be not less than either 75% of RSM or GEL 2,200 thousand throughout the period from 1 July 2017 to 1 January 2018; and
- The Regulatory Capital should be at least either 100% of RSM or GEL 2,200 thousand throughout the period from 1 January 2018.
- The Regulatory Capital should be at least either 100% of RSM or GEL 4,200 thousand throughout the period from 1st December 2018.

25 Capital Management (Continued)

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

As at the date these financial statements were authorized for issue, the Company was in full compliance with the level of Regulatory Capital in respect of 100% of RSM.

27 Insurance risk management

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

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

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

(i) Underwriting strategy

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

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

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

(ii) Reinsurance strategy

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

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

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

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

26 Insurance risk management (Continued)

(i) Motor insurance

Product features

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

Management of risk

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

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

(ii) Property insurance

Product features

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

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

Management of risk

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

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

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

(iii) Life insurance

Product features

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

26 Insurance risk management (Continued)

Management of risk

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

(iv) Aviation insurance

Product features

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

Management of risk

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

(c) Concentrations of insurance risk

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

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

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

(d) Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Company. The table compares the claims paid on an accident year basis with the reserves established for these claims. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the table provides a reconciliation of the total reserves included in the statement of financial position and the estimate of cumulative claims. While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2019 is adequate.

26 Insurance risk management (Continued)

Estimate of cumulative claims (excluding BMTPL)	2018	2019
Accident Year	80,753	1,571,444
One Year Later	78,471	-
Current estimate of incurred claims	**78,471**	**1,571,444**
Accident Year	(49,953)	(1,376,603)
One Year Later	(78,471)	-
Cumulative payments to date	**(78,471)**	**(1,376,603)**
Gross outstanding claims reserve	**-**	**194,841**

RBNS from to BMTPL amounted 43,015 GEL.

(e) Reinsurance risk

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

28 Fair values and risk management

(a) Fair value of financial assets and liabilities

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

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

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

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

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

27 Fair values and risk management (Continued)

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

	31-Dec-19				31-Dec-18			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	-	514,554	-	**514,554**	-	367,965	-	**367,965**
Certificates of deposits	-	3,314,322	-	**3,314,322**	-	176,513	-	**176,513**
Term deposits	-	3,926,002	-	**3,926,002**	-	5,859,177	-	**5,859,177**
Promissory note	-	300,095	-	**300,095**	-	-	-	**-**
Total assets	**-**	**8,054,973**	**-**	**8,054,973**	**-**	**6,403,655**	**-**	**6,403,655**
Other financial liabilities	-	147,850	-	**147,850**	-	49,174	-	**49,174**
Total liabilities	**-**	**147,850**	**-**	**147,850**	**-**	**49,174**	**-**	**49,174**

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

(b) Presentation of financial instruments by measurement category

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

Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. At the reporting date (as well as in financial year 2018) all financial assets were classified as (a) loans and receivables. All of the Company's financial liabilities were carried at amortised cost.

27 Fair values and risk management (Continued)

(c) Financial risk management

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

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

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

(ii) Risk management framework

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

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

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

(iii) Credit risk

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

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

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

Credit exposure

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

	31-Dec-19	**31-Dec-18**
Bank deposits	7,240,324	6,035,690
Insurance receivables	3,725,714	2,097,066
Cash and cash equivalents	514,554	367,965
Investment securities held to maturity	300,095	-
Total credit exposure	**11,780,687**	**8,500,721**

27 Fair values and risk management (Continued)

The aging of insurance receivables at the reporting date was:

	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Not past due	1,360,544	-	781,536	-
Past due 0-90 days	1,958,677	11,746	1,315,530	-
Past due 91-180 days	213,157	28,855	-	-
Past due 181-270 days	21,673	9,670	-	-
Past due 271-365 days	33,039	19,490	-	-
Past due more than one year	1,336	826	-	-
Total	**3,588,426**	**70,587**	**2,097,066**	**-**

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

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

(iv) Liquidity risk

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

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

(v) Maturity profiles

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

(vi) Market risk

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

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

(vii) Currency risk

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

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

27 Fair values and risk management (Continued)

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

	USD denominated 31 December 2019	EUR denominated 31 December 2019	USD denominated 31 December 2018 (restated)
Cash and cash equivalents	1,013	-	10,459
Insurance receivables	2,784,080	5,556	1,828,597
Ceded share of insurance contract reserves	2,860,653	8,294	1,814,712
Insurance contract reserves	(3,308,898)	(5,890)	(2,094,504)
Reinsurance payables	(2,798,823)	(5,669)	(1,671,065)
Net Exposure	**(461,975)**	**2,291**	**(111,801)**

The following significant exchange rates have been applied:

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

	Average Rate	Reporting date spot rate
In GEL	**2018**	**31 December 2018**
USD	2.5345	2.6766
EUR	2.9913	3.0701

Sensitivity analysis

A reasonably possible strengthening (weakening) of GEL, as indicated below, against USD and EUR at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss after tax by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant (judgement for applying 20% movement is documented in the note 31):

	Strengthening	Weakening
	Profit or (Loss) and Equity	**Profit or (Loss) and Equity**
31 December 2019		
USD (20% movement)	92,395	(92,395)
EUR (20% movement)	(458)	458
31 December 2018		
USD (20% movement)	22,360	(22,360)

(viii) Interest rate risk

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

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

29 Contingencies

(d) Legal proceedings

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

(e) Taxation contingencies

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

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. (Note 18)

30 Related parties

(a) Parent and ultimate controlling party

As of 31 December 2019 and 2018, the Company's immediate parent company was JSC "Basis bank" incorporated in Georgia. As of 31 December 2019 and 2018 ultimate shareholder of the Company were Xinjiang Hualing Industry & Trade (Group) Co Ltd incorporated in People's Republic of China (92.305%), Mr. Mi Zaiqi (6.969%) and other minority shareholders 0.726%.At of 31 December 2019 balances with ultimate shareholders comprised insurance contract reserves amounting 11,889 GEL; transactions with ultimate shareholders during 2019 comprised earned premium 13,340 GEL, and FX gain 610 GEL. No balance or movement in 2019 and 2018.

(b) Key management remuneration

Key management includes Directors (executive).

	2019		2018	
	Expense	Accrued Liability	Expense	Accrued Liability
Salaries and bonuses	352,759	100,377	62,625	-
Post-employment benefits & Insurance	1,656	-	220	-
Total key management compensation	**354,415**	**100,377**	**62,845**	**-**

29 Related parties (Continued)

(c) Transactions with other related parties

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

	2019			2018		
	Entities Under Common Control*	**Parent Company**	**Other***	**Entities Under Common Control***	**Parent Company**	**Other**
Assets						
Cash and cash equivalents	-	131,454	-	-	24,222	-
Bank deposits	-	54,701	-	-	4,009,998	-
Insurance receivables	106,413	24,780	841,424	-	247	712,053
Total assets	**106,413**	**210,935**	**841,424**	**-**	**4,034,467**	**712,053**
Liabilities						
Insurance contract reserves	121,691	74,778	1,252,275	-	53,723	967,232
Commission payables	-	705	-	-	744	-
Total liabilities	**121,691**	**75,483**	**1,252,275**	**-**	**54,467**	**967,232**
Off – Balance; Guarantee		*38,500*			*38,500*	

	2019			2018		
	Entities Under Common Control*	**Parent Company**	**Other***	**Entities Under Common Control***	**Parent Company**	**Other**
Income Statement						
Earned premium	38,788	303,705	2,202,617	-	391,522	870,393
Interest income	-	275,167	-	-	396,056	-
Claims Settled	28,244	18,957	76,522	-	816	16,359
Change in outstanding claims	20,000	9,150	(6,825)	-	708	11,000
Acquisition costs	-	2,758	-	-	385	-
Foreign exchange gain/losses	-	4,881	(5,559)	-	5,574	107,339
Total	**87,032**	**614,618**	**2,266,755**	**-**	**795,061**	**1,005,091**

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

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

31 Subsequent Events

JSC Hualing Insurance was in compliance with capital requirements set by ISSSG during subsequent period of 2019.

Late in 2019 news first emerged from China about the COVID-19 (Coronavirus). The situation at the year end, was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020 the virus had spread globally, and its negative impact has gained momentum.

The COVID19 epidemic has affected insurance sector in Georgia. The sales process of insurance products, as well as consumers behaviour and willingness to buy insurance policy is changing.

Management considers this outbreak to be a non-adjusting post balance sheet event. While this is still an evolving situation at the time of issuing these financial statements, to date there has been no significant negative impact on the company's sales or supply chain, although the future effects cannot be predicted precisely, management has discussed several aspects of the business and evaluated risks:

Expectations in regard to GWP:

1. Management expects significant decrease in retail insurance activity on the market. Due to lockdown period, population’s willingness to buy Motor Insurance (key product of the company) is decreasing.
2. Decrease of corporate activity is also expected, although with lower scale.
3. Motor insurance sold to local leasing companies holds larger portion of company’s annual GWP. Although key customer companies shall not seize insurance policies, it is expected that their leasing portfolio shall decrease accordingly less policies shall be sold.
4. Life insurance GWP growth is tied to parent company JSC Basis Bank loan portfolio. Bank does not expect significant growth in loan portfolio accordingly the company shall maintain same level of GWP growth as in first quarter 2020.
5. Income from Compulsory Insurance Centre (CIC) operating border MTPL is expected to decrease due to tourism limitations.

Expectation in regard to claims:

Management considers maintaining the same loss ratio in all insurance streams except Motor insurance. Motor insurance claims frequency and claims ratio will decrease in the short-term period due to the social distancing rules posed by the Government that decreased transportation.

Currency effect:

As of 14 April 2020, Georgian Lari depreciated towards USD and EUR, by 9% and 6%, respectively. Corresponding translation loss on foreign-currency denominated reinsurance payables outstanding as at 31 December 2019 comprises GEL 260 thousand.

For currency risk assessment purposes management applied 20% movement in GEL rate (note 28).

Management will continue to monitor the potential impact of COVID-19 and will take all steps possible to mitigate any effect. Moreover, the management has evaluated the going concern issue and is preparing several forecasts based on contrasting future scenarios. Even if the negative situation continues for the next several months having severe impact on the insurance business generally in Georgia and, hence, decreasing the Company revenue, management assumes that due to the considerably high levels of liquidity and capital adequacy the company will have no going concern issue.