**JSC TBC Insurance**

**The Management Report and Financial Statements**

**31 December 2022**

# JSC TBC Insurance

# The Management Report

# 31 December 2022

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## 1.At a Glance

JSC TBC Insurance ("TBC Insurance" / "The Company") along with TBC Bank, is a member of TBC Bank Group PLC, Georgia's largest banking group known for its outstanding financial performance, superior customer experience, strong brand and best-in-class digital banking channels, which are also one of the key strategic channels for TBC Insurance.

TBC Insurance (previously JSC Insurance company Kopenbur) was incorporated on 8th of May 2014. On 1st November 2016, Kopenbur was acquired by TBC Bank Group and subsequently has changed its legal name to TBC Insurance.

TBC Insurance is one of the leading players of the non-health insurance market, with strong digital multichannel presence and varied and innovative digital products. We strive to achieve strong financial results and maximize shareholder value, at the same time being fully aware of our responsibility to our customers, employees, community, and the environment. At TBC insurance we strongly believe that customer satisfaction is at the heart of everything we do. This ethos coupled with innovative approaches of young and talented employees working collaboratively with the experienced and versatile management team ensures that the company shows stable year-over-year financial performance.

TBC insurance covers all business sectors including Retail, SME and Corporate, with multiple products that are designed to meet varied needs of retail and business customers. Products are delivered through highly developed multichannel network, each channel and product being tailored to the needs and preferences of a particular customer group.

In Q2 2019, we launched Health Insurance line and by end of the 2022 achieved 37 thousand insured client base, supported by 362 provider clinics across the country.

In 2019, the Company launched its first digital healthcare ecosystem in Georgia, Redmed. Redmed was formed and incorporated in Georgia as a limited liability company under the Georgian Law on 21st June 2019, with GEL 5,776 thousand of total capital contribution as of the reporting date. Redmed LLC is fully owned subsidiary of TBC Insurance, the only subsidiary entity as of 31 December 2022.

Redmed is a fully digital find-a-medical service company, allowing customers to quickly find, book and receive medical services. The application is simple to use – customers need to register and create an account in order to search for a doctor, book an appointment or order medicines.

As the trend towards the ecosystem service model is increasing rapidly, we believe this service model will prove successful and will allow us to:

- Enhance data collection capabilities, which will eventually improve our underwriting effectiveness;
- Decrease unnecessary outpatient referrals within clinics, thereby decreasing claim expenses and ultimately positively affecting loss ratio;
- Automate processes and allow instant claim recognition and reimbursement.

## 1.At a Glance (Continued)

### Our Vision

To become number one insurer in Georgia.

### Strategic Priorities

- Digitalized sales channels and processes
- Transparent and timely claims settlement services
- Proactive management of Net Combined Ratio[1]
- Strong and modern brand
- Outstanding User Experience

## 2.General Overview

Right after recovering from COVID-19 pandemic, Georgian economy and insurance industry faced new challenges caused by Russia-Ukraine war. Due to high inflationary environment (average annual 11.9%), insurance companies were further faced by increasing claims settlement costs.

Despite these challenges, easing of pandemic-related restrictions boosted the economy. Companies resumed their operations, resulting in increased demand for insurance services. Activation of transport and logistics industries contributed to 15.7% and 20.5% increase of motor and cargo insurance sales, respectively, compared to previous year. Travel insurance had the largest year-over-year growth among non-health products (77.9%). in 2022 annual premium exceeded pre-pandemic rate by 29.8%. As a result, total non-health insurance market increased by 10.5%.

In 2022, TBC Insurance retained second largest share of the non-health insurance market. Save for the Mandatory MTPL, which generated a market of GEL 41,686 thousand in written premiums distributed evenly among active insurance companies, non-health market grew at the rate of 10.5% YoY (17.5% in 2021), while TBC Insurance grew at the rate of 24.0% YoY (23.6% in 2021).

Total non-health market (w/o Mandatory MTPL) written premium increased by GEL 44,842 thousand (from GEL 425,637 thousand in 2021 to GEL 470,479 thousand in 2022), with most of the increase being attributable to the growth of Corporate and Retail sectors, while Government sector remaining almost unchanged.

[1] Net insurance claims plus acquisition costs and administrative expenses divided by net earned premium.

## 2.General Overview (Continued)

### Retail Sector

TBC Insurance reached several milestones in 2022:

- Sustaining the number one position on the Retail market and moving up from the 3rd to the 2nd position on total insurance market.
- Reaching 71.2% digital offloading[2] ratio compared to 70.4% in 2021.
- Increasing corporate non-health insurance portfolio by 26.44%, subsequently increasing non-health corporate market share by 2.47%.
- Decreasing Heath Insurance Net Combined Ratio from 121.3% to 92.1%, making it a profitable business line.
- Launching new motor insurance product - Complect, which allows customers to select risks they wish to insure and therefore pay less in premiums.

In 2022, TBC Insurance continued to actively utilize variety of retail sales channels - in-house and external digital channels, TBC Bank physical branches, the Company's VIP and Post-Corporate Sales Divisions, Agency Network (including branches in Batumi, Poti, Zugdidi & Kutaisi), and car retailers. Total premium written via these channels in 2022 stands at GEL 78,223 thousand. This corresponds to 19.2% YoY increase, while total retail market increased by only 15.9% YoY. As a result, TBC Insurance market share reached 38.4% in 2022 compared to 37.3% in 2021.

## 3.Digital Channels

One of the key strategic directions is constant innovation and expansion of digital channels to ensure we provide best user experience at all times.

One of our key digital channels is company application. The application was initially created to cater for the needs of the company's health insureds. In 2022 the health module was further expanded to include functionality which allows users to book doctor and test appointments, as well as request referrals and call an ambulance.

Throughout the year the application was updated to incorporate motor and travel modules.

Motor module allows users to update motor policy details, add named drivers, request additional services such as car wash and roadside assistance, and to use in-app photo shooting service during policy purchase and claims settlement process.

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[2] Number of retail policies written via digital channels divided by total number of voluntary retail policies written.

**3.Digital Channels (Continued)**

Travel module provides full insurance buying functionality along with the opportunity for the insureds to notify of the insured event, register the claim and request claims payment.

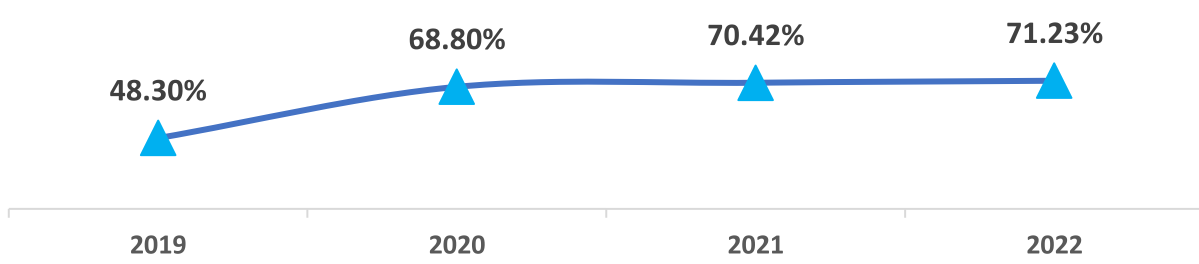
On top of major health, motor and travel modules, additional policy related services such as Key Policy Conditions and premium payment functionality were added for Property, Term Life and Critical Illness insurances. These innovations have contributed to a significant increase in the number of digital users, generating more than 26,000 users by the end of the year 2022.

In parallel to the development of the company app, we actively worked to develop digital services for our business customers. In 2022, new insurance product was introduced to TBC Insurance platform Logista. Customers can now purchase cargo and container insurance policies via Logista platform. The platform has fully substituted manual processes and reduced policy buying time from two hours to 17 seconds.

Another key direction in 2022 was to simplify and optimize claims settlement process. To achieve this, digitalization was undertaken in both directions – in internal systems and processes as well as the customers' end.

Development of new CRM for motor claims department was initiated, and a Beta version of the platform was launched by the end of 2022. At claims managers' end, new CRM optimized claim registration, claim estimation, calculation, and approval process, eliminated human errors and combining various data, which was previously located in different systems, in one place. To complete digitalization of motor claims settlement process, TBC insurance developed new application for claim officers. The application has a built-in notification system for claim officers to ensure that claims in their respective portfolios are dealt with in a timely manner. It also allows officers to photo shoot motor accident scene via live camera or save photos in the gallery and later upload to the claims CRM.

Another noteworthy achievement was launch of Travel Insurance product for tourists incoming from Arab countries. The product can be purchased online via the company's web site, the flow is built in Arabic language and the policy along with other policy related documents is also issued in Arabic. By removing language barrier, new feature has significantly simplified policy purchase process thereby increasing sales volumes and digital offloading ratio of 70.4% in 2021 to 71.2% in 2022.



## 3.Digital Channels (Continued)

As of 2022, our portfolio of digital products and channels has been highly diversified:

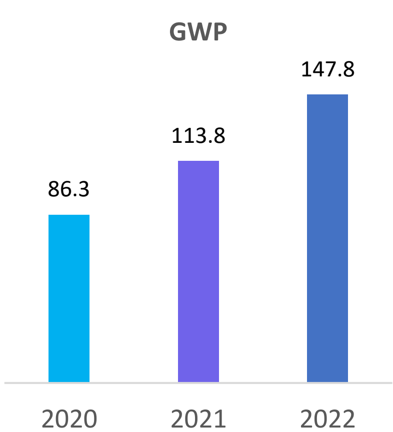
| Product / Channel | TBCi WEB | TBCi App | B-Bot | Agents Portal | TBC Bank Mobile Bank | TBC Bank Internet Bank | TBC Pay | Silknet |
|---|---|---|---|---|---|---|---|---|
| Standard Motor Insurance | ✓ | ✓ | | ✓ | ✓ | | | |
| Stand Alone MTPL Insurance | ✓ | | ✓ | | ✓ | ✓ | ✓ | |
| Motor Insurance - Complect | | | | ✓ | | | | |
| Property Insurance | ✓ | | | ✓ | | | | ✓ |
| Critical Illness Insurance | ✓ | | | ✓ | | | | |
| Term Life Insurance | ✓ | | | ✓ | | | | |
| Travel Insurance - Incoming | ✓ | | | | | | | |
| Travel Insurance - Outgoing | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ |
| Student Health & PA Insurance | ✓ | | | | | | | |

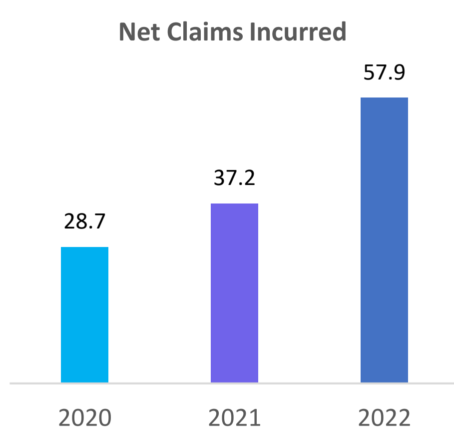
### SME & Corporate Sector

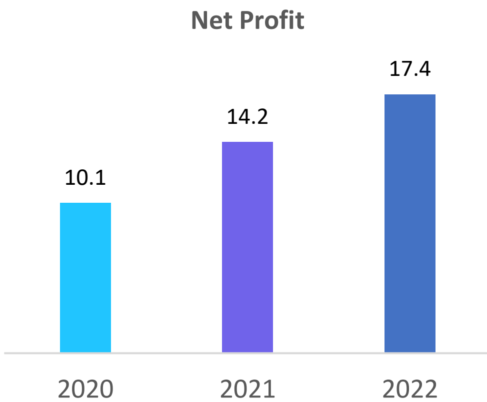
Similar to 2021, 2022 was characterized by fierce competition on SME & Corporate market. Notwithstanding the competition, TBC Insurance generated GEL 35,861 thousand in gross written premiums, 26.4% YoY increase, thereby increasing its market share of SME & Corporate market to 14.9%. Additionally, we have won and insured some of the leading companies on the market, including Poti Sea Port, Khobi HPP, Kasleti HPP, Batumi Tower, and Leader-food.

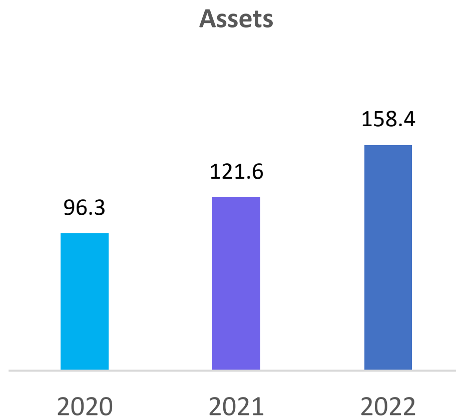
## 4. Financial Highlights (mln GEL)

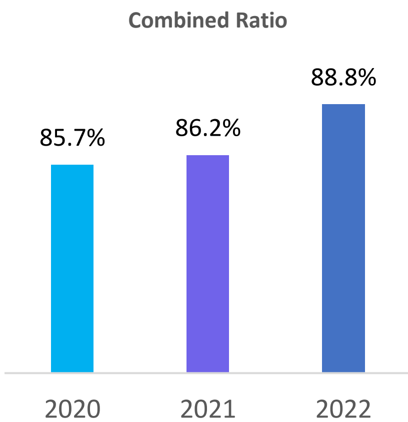
*[Market share excluding Mandatory MTPL and Health Insurance lines]*

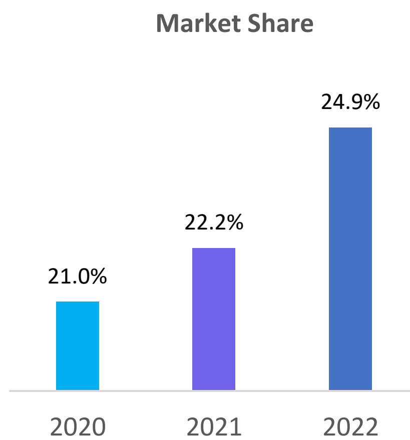





## 5.CEO Letter

### Overview

Main challenges faced by Georgian companies in 2022 were uncertainties related to Russia-Ukraine war and high inflation. We kept on readjusting to current reality, with key priority being our employees and customers.

### Main achievements

In those challenging times we managed to retain our market position and by the end of 2022, TBC Insurance held an overwhelming 38.4% of the non-health retail market and 24.9% of the total non-health market.

This is especially important as our corporate health insurance client base has increased by 27.7% YoY and exceeded 37 thousand insureds by the end of 2022. This, by itself, is a noteworthy achievement considering the high level of saturation of the corporate health insurance market.

In the new world that has emerged post COVID-19 pandemic, our digital strategy in non-health business proved to be more relevant than ever and we significantly increased share of our digital sales in retail segment, as well as share of motor claims that are settled online. In the meantime, our Health insurance application has gained popularity among the insureds, with increased penetration and high customer engagement.

**Value Created for Employees**

In TBC insurance, success starts with our team!

To engage and motivate our employees, in 2022 we continued investing in our employees, by providing seminars and trainings to expand their knowledge and hone skills that are essential to achieve underwriting, operational and sales excellence.

To ensure the safety and wellbeing of our employees, we continued remote working practices. We succeeded in setting up necessary infrastructure for remote working at the very onset of the pandemic and until now allow our employees flexibility of remote working on a partial basis.

In the hybrid model, employees retain flexibility and achieve better work-life balance, which translates into higher productivity, satisfaction, and engagement levels. To sustain hybrid model, we improved our IT systems and ensured that they provide smooth and secure services on an ongoing basis.

As a result, in 2022 the employee engagement index reached 90%.

**Value Created for Clients and Communities**

As the world around us is changing, so does the expectations of your clients, which means we must keep the pace.

Today good customer experience demands digital excellence, high speed of information exchange, customer centric approach and meaningful data for improved customer insights.

In 2022, we implemented several initiatives to support our customers. We increased our focus on digitalization to streamline and automate processes involved in servicing both retail and corporate customers, thus decreasing contract administration costs, simplifying policy purchase process, and decreasing claim settlement times across different product lines.

After COVID-19, customers became savvier in their use of digital health services. To meet their expectations, we updated our mobile app making it more user-friendly and sophisticated in terms of services they can now access via the app.

We pride ourselves on offering a superior customer experience in health and motor insurance lines, with Net Promoter Scores (NPS) of 70%[3] and 77%[3], respectively.

For corporate clients involved in logistics business we developed fully digital and innovative platform Logista, which allows them to digitally connect all major shipping lines and to purchase container and cargo insurance policies within few seconds.

[3] Net Promoter Score was measured in January 2023, by an independent research and consultancy firm.

**5.CEO Letter (Continued)**

Digital tools such as online renewal of motor policies, vehicle photo self-inspection app and Logista significantly increased share of policies that are purchased, managed, and renewed online. As a result, our digital sales offloading ratio[2] reached 71.2% in 2022, compared to 70.4% a year ago.

Claims administration and settlement process was further streamlined and digitalized. This resulted in reduced average settlement times for motor claims, with 87.0% of claims settled within 10 business days. In addition, the number of retail motor claims handled digitally also increased sharply, with offloading ratio reaching 84.9% by December 2022, up by 1.3pp YoY.

In response to the movement of Ukrainians to Georgia, we launched travel insurance specifically catering for their needs. The product covers urgent medical, personal accident and Covid-19 related expenses. Aggregate insurance limit per insured is EUR 50,000. For Ukrainian citizens the product is free of charge.

To spread positive impact, we created the ESG Strategy which strengthens our long-term commitment to the development of our country. Our vision is to support the sustainability of our business, employees, suppliers, and society. Our ESG Strategy is built around following key areas: increasing accessibility to products and services, diversified workforce, equality and engagement, sustainable and green insurance portfolio, along with a system to evaluate and measure impacts.

**Value Created for Investors**

TBC Insurance is committed to maximizing shareholder value. In 2022 our net income stood at GEL 17.390 thousand, which is 21.5% YoY increase. GEL 10.0 mln was distributed in dividends to our shareholders.

Our financial strength and stability are further expressed in Solvency and Combined Ratios, which stand at 133.4% and 88.8%, respectively.

**Outlook**

These are unpredictable times. Alongside the economic effects of the pandemic there is a political tension between post-Soviet states, which leads us to carefully examine and observe our further steps to ensure the balance between economic uncertainty and our ambitious goals.

Nevertheless, our strong dedication to the wellbeing of our employees and customers, our continued investment in digital capabilities, and our unwavering fiscal discipline fills me with confidence that TBC Insurance is well positioned to withstand the headwinds and to emerge as a stronger and better company.

**Paata Gadzadze**
Chief Executive Officer

## 6.Risk Management

The Supervisory Board together with the Group's management has overall responsibility for the establishment and oversight of the Group's risk management framework, development and monitoring of the Group's risk management policies and ensuring regular reporting to the shareholders.

The Group's risk management policies are established to identify and analyse risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, 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 responsibilities.

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

Considering the nature of the insurance business, one of the key priorities of the Board is the establishment of a robust risk management function.

To ensure effective risk governance, TBC Insurance developed and put in place overall risk management framework, which covers all types of risk such as  financial risk, operational risk, information security, cyber risk and compliance and regulatory risks.

One of the main tools of risk management is risk appetite metrics that include financial as well as non-financial risk ratios. The Risk Appetite Framework ("RAF") is intended to create a robust operational environment, where all material risks faced by TBC Insurance as well as any risk-taking activities that are beyond the company's risk appetite are identified, reported and managed in a timely manner. The RAF defines the level of risk the Company is willing to accept in pursuit of return and value creation. It also clearly defines the types of risk that should be avoided. RAF is updated on an annual basis, last update was made in November, 2022.

The activities of information and cyber security cover permanent update of policies and implementation of new tools like DLP, Antivirus software, EDR, SIEM, NG firewall, and vulnerability scanner.

Risk governance also includes permanent operational risk management activities such as RCSA (Risk and Control Self-Assessment), Incident Management, KRI (Key Risk Indicators), Vendor Risk Assessment and Fraud Risk Assessment.

TBC Insurance carries out assessment of potential losses posed by individuals and business entities insured under health, life, PA and other Property & Casualty insurance contracts. As such, TBC Insurance is exposed to the uncertainty as to the timing and severity of claims under these contracts. The principal risk is that the frequency and severity of claims may be higher than expected. Insurance events are by their

### 6.Risk Management (Continued)

their nature random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. TBC Insurance also has exposure to market risk through insurance and investment activities.

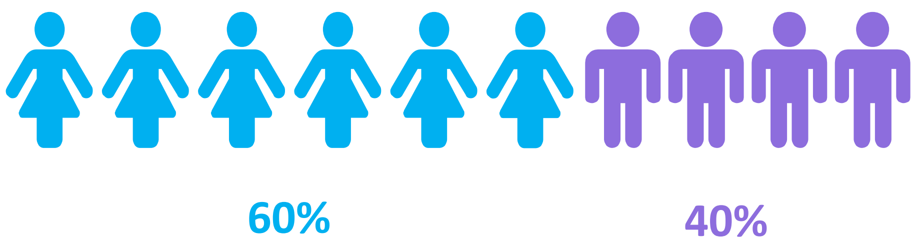
TBC Insurance's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting and secondly, is transferred using reinsurance. TBC Insurance purchases reinsurance for various business lines: motor, life, property, cargo, liability, and surety business.

TBC Insurance management reviews entity credit, liquidity, and cash flow risks on a monthly basis:

1. Credit risk is the risk that one party to a financial transaction may fail on its obligations under the contract. The Group reinsures certain credit risks with reinsurance companies. There is a robust selection process of reinsurance companies, which is based on their solvency, reliability, and creditworthiness criteria.
2. Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk occurs when there is a mismatch between maturity of assets and liabilities. TBC Insurance liquid assets as of December 2022 are 50% above its total assets. Moreover, solvency ratio of 133.4% signifies that TBC Insurance can endure long-term recessions. This position is further strengthened by the fact that TBC Insurance does not hold loans or other long-term liabilities.

### 7.Our Team

TBC Insurance prides itself on employing some of the best and skilled professionals in the region. By the end 2022, our numbers grew by 12.5% and reached 359 employees. We believe that each employee is a part of our success, and we are committed to keeping them by providing competitive benefits package, along with continuous professional support and best working environment.




TBC Insurance is an equal-opportunity employer and we do not discriminate based on race, ethnicity, religion, gender, age or disability. We promote gender equality and support women in the workforce. We are proud that women comprised 60% of our total workforce by the end of 2022.

**7.Our Team (Continued)**

In 2022, we conducted engagement surveys (result – 90%) for our employees, as well as 360-degree evaluation for management staff. We actively participated in numerous job fairs organized by top universities and leading HR consultancies to help us select the best candidates with the highest growth potential.

Each year we provide our employees with latest information and developments about TBC Group, since regular communication with employees is an integral part of our corporate culture.

**8.Corporate Governance**

TBC Insurance is a subsidiary of London Stock Exchange premium segment listed TBC Bank Group PLC (together the "Group"). The Group complies with the highest standards of Corporate Governance as prescribed by the UK Corporate Governance Code.

TBC Insurance Supervisory board comprises (the "Board") of four members, who are collectively responsible for promotion of the company's long-term success and the delivery of sustainable value to shareholders by establishing and overseeing the company's strategy and its implementation. The Board is the decision-making body in relation to all matters that are significant to the company. The matters exclusively reserved for the Board's include, among other things, approval of the company's strategy, long-term objectives, risk appetite, annual operating and capital expenditure budgets, changes to the company's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts.

**9.Supervisory Board**

**Vakhtang Butskhrikidze**

**Chairman**

Vakhtang Butskhrikidze graduated from Tbilisi State University in 1992 with a degree in Economics and holds post graduate qualifications from the Institute of Economics, Academy of Sciences of Georgia. Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC Bank's committees. Vakhtang is a member of the Supervisory Board of the Association of Banks of Georgia and is the Chairman of the Financial Committee of the Business Association of Georgia. Since 2011 he is the member of the Supervisory Board of the Partnership Fund, Georgia. In 2016, Vakhtang joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council. In his earlier career, Vakhtang acted as Junior Specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as an Assistant to the Minister of Finance of Georgia between 1992 and 1993. In 2001, Vakhtang was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011, was recognised as the "Best Banker 2011" by GUAM, Organization for Democracy and Economic Development award. Vakhtang was named as the CEO of the Year 2014 in Central and Eastern Europe the CIS by EMEA Finance magazine. Vakhtang has an MBA degree from the European School of Management in Tbilisi , obtained in 2001. In November 20016 Mr. Butskhrikidze was appointed as the chairman of the Board of TBC Insurance.

**Tornike Gogichaishvili**

**Board Member**

Tornike joined TBC Bank in 2018 as Chief Operating Officer and Deputy CEO following 20 years of financial services and operations management experience. Tornike Gogichaishvili has been appointed to lead retail banking business of TBC Bank in January, 2020. Prior to joining TBC, he has served as a Deputy CEO, Chief Operations Officer at the Bank of Georgia since 2016. Between 2010 and 2016, Tornike served as Director of Operations Department at the Bank of Georgia. He also served as Head of International Banking at the Bank of Georgia Group. Between 2008 and 2010, Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of the Bank of Georgia). Between 2006 and 2008 he held the position of CEO at the Insurance Company Aldagi. He also served as Chief Financial Officer of UEDC PA Consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004. Tornike graduated from the Faculty of Law at Tbilisi State University and holds an MBA degree from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

**George Tkhelidze**

**Board Member**

George joined TBC Bank in 2014 from Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. Prior to this, from September 2009 he was an Associate Director in Barclays Debt Finance and Restructuring Teams. During his career with Barclays in London, George worked on and executed multiple M&A, and debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George held various managerial positions at ALDAGI insurance company, where he also served as Chief Executive Officer. In 2009 George graduated from the London Business School with an MBA degree. He also holds a Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and Graduate Diploma in Law from Tbilisi State University (2000).

**9.Supervisory Board (Continued)**

**Zezva Tsiskarishvili**

**Independent Board Member**

Zezva joined TBC Group in 1994 as an Accounts Manager at TBC Bank, subsequently becoming the Head of Asses Management and International Banking Departments. In 1999 he took the position of Deputy CEO, overseeing international banking, relationship with international financial institutions, product development, treasury, marketing and public relations and regional development projects.

In 2008, Zezva moved to Georgian Reconstruction and Development Company (GRDC) as a Deputy CEO where he was leading international relationships and product development. In 2010 he became CEO of the same company. After six years at GRDC, Zezva became CEO of Metra Development. In 2016-2022, Zezva served as a Project Manager VP of investment company TS Holding.

Zezva earned Bachelor’s degree from Tbilisi State University in the field of Economic Geography, after which he completed several training courses in different institutions with honor, including Joint Vienna Institute, University of California, Davis. He was also a member of the team of advisors to the Vice President at Silicon Valley Bank, California.

**10. Management Board**

**Paata Gadzadze**

**Chief Executive Officer**

Paata joined TBC Bank in 1994 as Deputy General Director and was appointed to the Management Board in 1996. In 2005, he was appointed to head the Credit Department. Paata has held the position of First Deputy CEO since 1998. Since 2014, he has held the position of the member of the Supervisory Board of TBC Leasing. Since 2016, Paata has served as a lecturer at the Free University, Georgia. In 2017, he was appointed as CEO of TBC Insurance and continues to hold the position of First Deputy CEO at TBC Bank. Between 2000 and 2004, he also served as CEO of Georgian Pension and Insurance Holding. In his earlier career, Paata was an assistant to the Minister of State Property Management between 1992 and 1994. Paata also held the position of a lecturer at the European School of Management, Tbilisi, between 1994 and 2004. Paata graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia.

## 10. Management Board (Continued)

**David Kiguradze**

**Deputy CEO**

In 2002, David Kiguradze graduated with the Bachelor’s degree in Business Administration from European School of Management. From 2002 to 2006 he held various positions at the Insurance Company GPI Holding, including the Head of Claims Department and the Head of Product Development & Underwriting Department. In 2006, David joined TBC Bank and served as the Head of Treasury and Financial Services for over five years. From 2012 to 2015, David was the CEO of TBC Kredit in Baku, Azerbaijan. He also held the position of CEO at TBC Pay from 2015 to 2016. Since 2016, he became the Deputy CEO at TBC Insurance. David graduated from IEDC – Bled School of Management, Slovenia with an MBA Degree (2006).

**Nikolay Kobzev**

**Chief Operating Officer**

Nikolay Kobzev received his Bachelor’s degree from Technical University of Georgia, Faculty of Information Technologies. From 2003 to 2012, he worked at the Insurance Company GPI Holding, where he served as Chief Information Officer for three years. In 2013, Nikolay graduated from University of Oxford, Said Business School with an MBA degree. From 2013 to 2016 he was part of MBA Leadership Development Program at Eli Lilly and Company, US and subsequently has worked at Boston Consulting, Russia. Since 2016, Nikolay holds the position of Chief Operating Officer at TBC Insurance.

**Sergo Sakvarelidze**

**Health Insurance Director**

Sergo Sakvarelidze graduated with the Medical Doctor degree from Tbilisi State Medical University. He also holds certificates from Free University in Business Administration and has undergone the Management Program for Senior Executives. Sergo holds a Certificate in General Management from the Bank of Georgia University. In 2006 Sergo joined Insurance Company GPI Holding where he held various positions till 2008. From 2008 he worked at the Insurance Company Aldagi as the Head of Medical Case Expertise and Monitoring and from 2010 became the Head of Health Claims Management Division. From 2014-2017 he worked as the Director of Claims Management Department and from 2017 became the Deputy CEO in Claims and Primary Healthcare at Insurance Company imedi L. Sergo has worked as the CEO of Tbilisi Heart Centre in 2020- 2021. From the beginning of 2022, Sergo has joined TBC Insurance as the Director of Health Insurance.

**10. Management Board (Continued)**

**Shota Tsiskarashvili**

**Chief Financial Officer**

Shota received his Bachelor's degree in Business Administration from Free University of Tbilisi. From 2015 to 2016, he worked as an Auditor at Deloitte and participated in audits of leading corporate clients in Banking and Electricity sectors. From 2016 to 2021 Shota served as the Head of Financial Department at TBC Insurance, becoming CFO in 2022.

**Change in Management Board**

**Nikoloz Sakvarelidze**

**Chief Financial Officer**

Nikoloz received his Bachelor's degree in Economics from Grinnell College. He has over fifteen years of experience in managerial positions in finance across various industries including energy, real estate, retail, telecommunications, IT, etc., working locally, as well as internationally. Before TBC Insurance, Nikoloz served 7 years as a Financial Director in LLC Galleria Tbilisi.

From the April of year 2023 Nikoloz has joined TBC Insurance and replaced Shota Tsiskarashvili on the position of Chief Financial Officer.

| | |
|---|---|
| David Kiguradze | Nikoloz Sakvarelidze |
| Deputy General Director | Chief Financial Officer |

## 10. Management Board (Continued)

**Shota Tsiskarashvili**

**Chief Financial Officer**

Shota received his Bachelor's degree in Business Administration from Free University of Tbilisi. From 2015 to 2016, he worked as an Auditor at Deloitte and participated in audits of leading corporate clients in Banking and Electricity sectors. From 2016 to 2021 Shota served as the Head of Financial Department at TBC Insurance, becoming CFO in 2022.

**Change in Management Board**

**Nikoloz Sakvarelidze**

**Chief Financial Officer**

Nikoloz received his Bachelor's degree in Economics from Grinnell College. He has over fifteen years of experience in managerial positions in finance across various industries including energy, real estate, retail, telecommunications, IT, etc., working locally, as well as internationally. Before TBC Insurance, Nikoloz served 7 years as a Financial Director in LLC Galleria Tbilisi.

From the April of year 2023 Nikoloz has joined TBC Insurance and replaced Shota Tsiskarashvili on the position of Chief Financial Officer.

David Kiguradze
Deputy General Director

Nikoloz Sakvarelidze
Chief Financial Officer

**TBC Insurance JSC**

**International Financial Reporting Standards**
**Consolidated and Separate Financial Statements and**
**Independent Auditor's Report**

**31 December 2022**

## Contents

INDEPENDENT AUDITOR'S REPORT



Contents

# Independent Auditor's Report

To the Shareholder and Management of JSC TBC Insurance

## Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of JSC TBC Insurance (the "Company") and its subsidiary (together - the "Group") as at 31 December 2022, and the Group's and the Company's consolidated and separate financial performance and consolidated and separate 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 Group's and the Company's consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2022;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the consolidated and separate 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 consolidated and separate 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 the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 consolidated and separate financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the consolidated and separate 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 consolidated and separate financial statements are prepared is consistent with the consolidated and separate 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 consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate 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 the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 Group's and 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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 (Reg.# SARAS-F-775813)

Levan Kankava (Reg.# SARAS-A-592839)

7 April 2023
Tbilisi, Georgia

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 Group's and 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 consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with 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)

Levan Kankava (Reg.# SARAS-A-592839)

7 April 2023
Tbilisi, Georgia

| *In thousands of Georgian Lari* | Notes | Consolidated 31-Dec-22 | Consolidated 31-Dec-21 | Separate 31-Dec-22 | Separate 31-Dec-21 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 5 | 15,390 | 14,751 | 15,330 | 14,663 |
| Bank deposits | 6 | 64,390 | 46,904 | 64,390 | 46,904 |
| Investment securities held to maturity | 7 | 4,953 | 2,903 | 4,953 | 2,903 |
| Derivative financial assets | 8 | 1,012 | 470 | 1,012 | 470 |
| Investment in subsidiaries | 9 | - | - | 5,776 | 4,426 |
| Insurance receivables | 10 | 42,566 | 33,366 | 42,566 | 33,366 |
| Reinsurance receivables | 11 | 4,689 | 3,887 | 4,689 | 3,887 |
| Ceded share of insurance contract reserves | 12 | 10,633 | 8,874 | 10,633 | 8,874 |
| Deferred acquisition costs | 13 | 1,973 | 1,474 | 1,973 | 1,474 |
| Deferred income tax asset | | 122 | 52 | 122 | 52 |
| Other assets | 14 | 1,353 | 1,899 | 1,326 | 1,835 |
| Right-of-use assets | 15 | 1,315 | 1,268 | 1,293 | 1,203 |
| Property and equipment | 16 | 1,192 | 1,471 | 1,163 | 1,423 |
| Intangible assets | 17 | 5,635 | 4,268 | 4,090 | 3,073 |
| **TOTAL ASSETS** | | **155,223** | **121,587** | **159,316** | **124,553** |
| Share capital | 18 (a) | 7,482 | 7,482 | 7,482 | 7,482 |
| Other reserves | 18 (c) | 1,300 | 1,300 | 220 | 220 |
| Retained earnings, including: | | 32,401 | 25,036 | 37,595 | 29,154 |
| Profit for the year | | 17,390 | 14,229 | 18,467 | 15,248 |
| **TOTAL EQUITY** | | **41,183** | **33,818** | **45,297** | **36,856** |
| Insurance contract reserves | 12 | 68,857 | 52,961 | 68,857 | 52,961 |
| Commission payables | 25 | 19,736 | 15,634 | 19,736 | 15,634 |
| Reinsurance payables | 19 | 9,979 | 7,819 | 9,979 | 7,819 |
| Lease liabilities | 15 | 1,339 | 1,470 | 1,320 | 1,414 |
| Financial liabilities | | 3,853 | 2,186 | 3,851 | 2,176 |
| Current income tax liability | | 1,018 | 237 | 1,018 | 237 |
| Share-based payment liabilities | 20 | 6,129 | 4,133 | 6,129 | 4,133 |
| Other liabilities | 21 | 3,129 | 3,329 | 3,129 | 3,323 |
| **TOTAL LIABILITIES** | | **114,040** | **87,769** | **114,019** | **87,697** |
| **TOTAL LIABILITIES & EQUITY** | | **155,223** | **121,587** | **159,316** | **124,553** |

Approved for issue and signed on behalf of the Supervisory Board on 7 April 2023.

David Kiguradze
Deputy General Director

Nikoloz Sakvarelidze
Chief Financial Officer

**TBC Insurance JSC**
Consolidated and Separate Statements of Financial Position

| *In thousands of Georgian Lari* | Notes | Consolidated 31-Dec-22 | Consolidated 31-Dec-21 | Separate 31-Dec-22 | Separate 31-Dec-21 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 5 | 15,390 | 14,751 | 15,330 | 14,663 |
| Bank deposits | 6 | 64,390 | 46,904 | 64,390 | 46,904 |
| Investment securities held to maturity | 7 | 4,953 | 2,903 | 4,953 | 2,903 |
| Derivative financial assets | 8 | 1,012 | 470 | 1,012 | 470 |
| Investment in subsidiaries | 9 | - | - | 5,776 | 4,426 |
| Insurance receivables | 10 | 42,566 | 33,366 | 42,566 | 33,366 |
| Reinsurance receivables | 11 | 4,689 | 3,887 | 4,689 | 3,887 |
| Ceded share of insurance contract reserves | 12 | 10,633 | 8,874 | 10,633 | 8,874 |
| Deferred acquisition costs | 13 | 1,973 | 1,474 | 1,973 | 1,474 |
| Deferred income tax asset | | 122 | 52 | 122 | 52 |
| Other assets | 14 | 1,353 | 1,899 | 1,326 | 1,835 |
| Right-of-use assets | 15 | 1,315 | 1,268 | 1,293 | 1,203 |
| Property and equipment | 16 | 1,192 | 1,471 | 1,163 | 1,423 |
| Intangible assets | 17 | 5,635 | 4,268 | 4,090 | 3,073 |
| **TOTAL ASSETS** | | **155,223** | **121,587** | **159,316** | **124,553** |
| Share capital | 18 (a) | 7,482 | 7,482 | 7,482 | 7,482 |
| Other reserves | 18 (c) | 1,300 | 1,300 | 220 | 220 |
| Retained earnings, including: | | 32,401 | 25,036 | 37,595 | 29,154 |
| Profit for the year | | 17,390 | 14,229 | 18,467 | 15,248 |
| **TOTAL EQUITY** | | **41,183** | **33,818** | **45,297** | **36,856** |
| Insurance contract reserves | 12 | 68,857 | 52,961 | 68,857 | 52,961 |
| Commission payables | 25 | 19,736 | 15,634 | 19,736 | 15,634 |
| Reinsurance payables | 19 | 9,979 | 7,819 | 9,979 | 7,819 |
| Lease liabilities | 15 | 1,339 | 1,470 | 1,320 | 1,414 |
| Financial liabilities | | 3,853 | 2,186 | 3,851 | 2,176 |
| Current income tax liability | | 1,018 | 237 | 1,018 | 237 |
| Share-based payment liabilities | 20 | 6,129 | 4,133 | 6,129 | 4,133 |
| Other liabilities | 21 | 3,129 | 3,329 | 3,129 | 3,323 |
| **TOTAL LIABILITIES** | | **114,040** | **87,769** | **114,019** | **87,697** |
| **TOTAL LIABILITIES & EQUITY** | | **155,223** | **121,587** | **159,316** | **124,553** |

Approved for issue and signed on behalf of the Supervisory Board on 7 April 2023.

David Kiguradze
Deputy General Director

Nikoloz Sakvarelidze
Chief Financial Officer

The accompanying notes on pages 8 to 69 are an integral part of these consolidated and separate financial statements.

| | | Consolidated | | Separate | |
|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Notes** | **2022** | **2021** | **2022** | **2021** |
| Gross written premiums | | 147,780 | 113,774 | 147,780 | 113,774 |
| Written premiums ceded to reinsurers | | (19,419) | (15,796) | (19,419) | (15,796) |
| **Net premiums written** | 22 | **128,361** | **97,978** | **128,361** | **97,978** |
| Change in the gross reserves for unearned premiums | | (11,040) | (11,662) | (11,040) | (11,662) |
| Reinsurers' share of change in the reserves for unearned premiums | | 1,827 | 665 | 1,827 | 665 |
| **Net earned premiums** | 22 | **119,148** | **86,981** | **119,148** | **86,981** |
| Interest income | 23 | 7,331 | 5,747 | 7,329 | 5,745 |
| Reinsurance commission income | | 555 | 473 | 555 | 473 |
| Other income | | 356 | 315 | 268 | 286 |
| **Total income** | | **127,390** | **93,516** | **127,300** | **93,485** |
| Claims settled | | (66,017) | (49,084) | (66,017) | (49,084) |
| Reinsurance share in claims settled | | 10,161 | 9,571 | 10,161 | 9,571 |
| Change in outstanding claims | | (4,856) | (2,772) | (4,856) | (2,772) |
| Reinsurance share in change in outstanding claims | | (68) | 701 | (68) | 701 |
| Subrogation and recoveries | | 4,639 | 5,343 | 4,639 | 5,343 |
| Expenses associated with claims | | (1,782) | (927) | (1,782) | (927) |
| **Net claims incurred** | 24 | **(57,923)** | **(37,168)** | **(57,923)** | **(37,168)** |
| Acquisition costs | 25 | (24,060) | (18,576) | (24,060) | (18,576) |
| Salaries & other employee benefits | 26 | (14,835) | (12,465) | (14,252) | (11,887) |
| General and administrative expenses | 27 | (7,545) | (5,800) | (7,147) | (5,472) |
| Depreciation & amortisation | 15/16/17 | (2,653) | (2,118) | (2,467) | (1,980) |
| Impairment charge | 28 | (384) | (257) | (384) | (257) |
| Finance cost | 15 | (82) | (112) | (78) | (109) |
| Foreign exchange gains/(losses) | | 1,267 | (80) | 1,263 | (77) |
| Other expenses | 29 | (346) | - | (346) | - |
| **Profit before income tax** | | **20,829** | **16,940** | **21,906** | **17,959** |
| Income tax expense | 30 | (3,439) | (2,711) | (3,439) | (2,711) |
| **PROFIT FOR THE YEAR** | | **17,390** | **14,229** | **18,467** | **15,248** |
| Other comprehensive income | | - | - | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **17,390** | **14,229** | **18,467** | **15,248** |

| *In thousands of Georgian Lari* | Notes | Consolidated 2022 | Consolidated 2021 | Separate 2022 | Separate 2021 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit before income tax | | 20,829 | 16,940 | 21,906 | 17,959 |
| Adjustments for: | | | | | |
| Change in unearned premium reserve | 12 | 11,040 | 11,662 | 11,040 | 11,662 |
| Change in reinsurer's share in unearned premium reserve | 12 | (1,827) | (665) | (1,827) | (665) |
| Change in deferred acquisition cost | 13 | (499) | (270) | (499) | (270) |
| Depreciation & amortisation | 15/16/17 | 2,653 | 2,118 | 2,467 | 1,977 |
| Net impairment losses on financial and contract assets | 28 | (384) | (257) | (384) | (257) |
| Losses less gains on disposals of property, plant and equipment | | (1) | (3) | (1) | (2) |
| Finance income | 23 | (7,331) | (5,747) | (7,329) | (5,745) |
| Finance costs | 15 | 82 | 112 | 78 | 109 |
| Foreign exchange translation differences | | (1,267) | 80 | (1,263) | 77 |
| **Operating cash flows before working capital changes** | | **23,295** | **23,970** | **24,188** | **24,845** |
| Insurance contract reserves (except UPR) | 12 | 4,856 | 2,772 | 4,856 | 2,772 |
| Ceded share of insurance contract reserves (except reinsurer's share in UPR) | 12 | 68 | (701) | 68 | (701) |
| Insurance receivables | 10 | (10,332) | (11,854) | (10,332) | (11,854) |
| Reinsurance receivables | 11 | (1,416) | (1,141) | (1,416) | (1,141) |
| Derivative financial assets | | 1,674 | 218 | 1,674 | 218 |
| Other assets | 14 | 551 | (256) | 513 | (198) |
| Commission payables | | 4,102 | 2,742 | 4,102 | 2,742 |
| Reinsurance payables | | 3,578 | 14 | 3,578 | 14 |
| Financial Liabilities | | 1,711 | 863 | 1,726 | 892 |
| Other Liabilities | 21 | (200) | 554 | (200) | 554 |
| Share Base Payment Liability | 20 | 1,996 | 1,518 | 1,996 | 1,518 |
| **Changes in working capital** | | **6,588** | **(5,271)** | **6,565** | **(5,184)** |
| Income taxes paid | | (2,728) | (3,654) | (2,728) | (3,654) |
| Interest income received | | 7,534 | 3,169 | 7,532 | 3,167 |
| Interest paid | | (82) | (112) | (78) | (112) |
| **Net cash from operating activities** | | **34,607** | **18,102** | **35,479** | **19,062** |
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | | (429) | (658) | (430) | (658) |
| Proceeds from the sale of property, plant, and equipment | | 142 | 33 | 142 | 33 |
| Acquisition of intangible assets | | (2,655) | (2,236) | (2,186) | (1,765) |
| Decrease in bank deposits | | 26,500 | 9,500 | 26,500 | 9,500 |
| Increase in bank deposits | | (43,707) | (11,000) | (43,707) | (11,000) |
| Acquisition of investment securities held to maturity | | (2,830) | (1,946) | (2,830) | (1,946) |
| Outflow of Investment in subsidiaries | | - | - | (1,350) | (1,526) |
| **Net cash used in investing activities** | | **(22,979)** | **(6,307)** | **(23,861)** | **(7,362)** |
| **Cash flows from financing activities** | | | | | |
| Repayment of lease liabilities - principal | 15 | (842) | (854) | (809) | (808) |
| Dividends paid to the Company's shareholders | 18 (b) | (10,026) | (7,003) | (10,026) | (7,003) |
| **Net cash used in financing activities** | | **(10,868)** | **(7,857)** | **(10,835)** | **(7,811)** |
| **Increase in cash and cash equivalents** | | **760** | **3,938** | **783** | **3,889** |
| Cash and cash equivalents at 1 January | 5 | 14,751 | 10,836 | 14,663 | 10,797 |
| Effect of exchange rate on cash and cash equivalents | | (121) | (23) | (116) | (23) |
| **Cash and cash equivalents at 31 December** | | **15,390** | **14,751** | **15,330** | **14,663** |

The accompanying notes on pages 8 to 69 are an integral part of these consolidated and separate financial statements.

| **Consolidated**<br>*In thousands of Georgian Lari* | **Notes** | **Share Capital** | **Other Reserves** | **Retained Earnings** | **Total** |
|---|---|---|---|---|---|
| Balance as at 1 January 2021 | | 7,482 | 1,300 | 17,811 | 26,593 |
| Profit for the year | | - | - | 14,229 | 14,229 |
| **Total comprehensive income for the year** | | **-** | **-** | **14,229** | **14,229** |
| Dividends paid to shareholders | 18 (b) | - | - | (7,003) | (7,003) |
| **Balance as at 31 December 2021** | | **7,482** | **1,300** | **25,037** | **33,819** |
| Balance as at 1 January 2022 | | 7,482 | 1,300 | 25,037 | 33,819 |
| Profit for the Year | | - | - | 17,390 | 17,390 |
| **Total comprehensive income for the year** | | **-** | **-** | 17,390 | 17,390 |
| Dividends paid to shareholders | 18 (b) | - | - | (10,026) | (10,026) |
| **Balance as at 31 December 2022** | | **7,482** | **1,300** | **32,401** | **41,183** |

| **Separate** *In thousands of Georgian Lari* | **Notes** | **Share Capital** | **Other Reserves** | **Retained Earnings** | **Total** |
|---|---|---|---|---|---|
| Balance as at 1 January 2021 | | 7,482 | 220 | 20,909 | 28,611 |
| Profit for the year | | | | 15,248 | 15,248 |
| **Total comprehensive loss for the year** | | **-** | **-** | **15,248** | **15,248** |
| Dividends paid to shareholders | 18 (b) | | | (7,003) | (7,003) |
| **Balance as at 31 December 2021** | | **7,482** | **220** | **29,154** | **36,856** |
| Balance as at 1 January 2022 | | 7,482 | 220 | 29,154 | 36,856 |
| Profit for the Year | | - | - | 18,467 | 18,467 |
| **Total comprehensive income for the year** | | **-** | **-** | 18,467 | 18,467 |
| Dividends paid to shareholders | 18 (b) | - | - | (10,026) | (10,026) |
| **Balance as at 31 December 2022** | | **7,482** | **220** | **37,595** | **45,297** |

## 1 Group and its Operations

These consolidated and separate financial statements include the financial statements of TBC Insurance JSC (the Company) and its subsidiary (together referred to as the Group).

TBC Insurance JSC is a joint stock company as it is defined under the Law of Georgia on Entrepreneurs and are incorporated and domiciled in Georgia on 8 May 2014. The Company is licensed to provide non-life and life insurance services in Georgia, issued by the Insurance State Supervision Service of Georgia on 14 July 2014 and 1 December 2016, respectively. TBC Insurance JSC provides insurance services in property and casualty, health, life insurance and in other products. The Company's registering body is LEPL- National Agency of Public Registry. The Company's registered address and place of business is Al. Kazbegi Avenue, N24b, III Floor, Tbilisi, Georgia. The Company's registration number is 405042804.

As at 31 December 2022 and 2021 the Group's immediate and ultimate parent as well as ultimate controlling party was TBC Bank Group PLC, owning 100.00% of the Group's shares (2021: 100.00%). TBC Bank Group PLC ("TBCG") is a public limited liability company, incorporated in England and Wales and listed on London Stock Exchange. TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Group PLC is 10029943

The Company has one fully-owned subsidiary entity – Redmed LLC. Redmed LLC was formed and domiciled in Georgia as a limited liability company under Georgian law on 21 June 2019. As of 31 December 2022 GEL 5,776 thousand of total capital contribution is made by TBC Insurance JSC in Redmed LLC. The principal business activity of the subsidiary entity is healthcare e-commerce.

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

All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

## 2 Operating Environment of the Group

The Group's operations are in Georgia. Consequently, the Group 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 consolidated and separate financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## 3 Basis of Preparation

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets categorised at fair value through profit or loss ("FVTPL") and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing. The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. Apart from the accounting policy changes effective from 1 January 2022 these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 38.

The Group has applied temporary exemptions from IFRS 9 *Financial Instruments* as permitted by IFRS 4 Insurance Contracts (more than 90% of the Group'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. Group plans to have a single date of initial application of 1 January 2023 of whole IFRS 9.

## 4 Use of Estimates and Judgements

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

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

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

For all types of insurance contracts, the Group estimates ultimate liability arising from reported but not settled claims based on the latest information the Group has related to the severity of the claim. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In addition to the Reported But Not Settled (RBNS) claims, the Group makes estimate of the ultimate liability arising from claims under life and health insurance contracts that are Incurred But Not yet Reported (IBNR) at the reporting date. The ultimate cost of IBNR is calculated by using standard actuarial methods such as chain-ladder method for life insurance and expected loss ratio method for health insurance. The primary underlying assumption of the chain-ladder method is that historical loss development patterns are indicative of future loss development patterns. The expected loss ratio is the ratio of ultimate losses to earned premiums. The ultimate losses can be calculated as the earned premium multiplied by the expected loss ratio. The total reserve is calculated as the ultimate losses less paid losses.

The carrying amount of IBNR reserve net of reinsurance as at 31 December 2022 was GEL 749 thousand (2021: GEL 549 thousand).

There are several sources of uncertainty that need to be considered in the estimation of the IBNR reserve. Sensitivity analysis for life insurance shows that 5% increase in the chain-ladder development factors would increase IBNR reserve requirement by GEL 379 thousand, accordingly 5% decrease in the development factors would decrease IBNR reserve requirement by GEL 379 thousand.

Health insurance is short-tailed business as there is only a two-month limit to report a claim after the occurrence. To calculate IBNR for health insurance management uses subsequent period actual claims which are reported before the financial statement reporting date. For the remaining period expert judgement is applied. Medical services received in a limited number of medical institutions may be reported after 2 months from claims occurrence date. Due to immateriality of such claims historically, no actuarial method is used, instead expert judgement is applied.

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

## 5 Cash and Cash Equivalents

Cash and cash equivalents represent current accounts placed in Georgian banks. Credit ratings of cash and cash equivalents were as follows:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| BB- | 15,373 | 14,733 | 15,314 | 14,645 |
| B+ | 3 | 5 | 3 | 5 |
| Not rated | 14 | 13 | 13 | 13 |
| **Total** | **15,390** | **14,751** | **15,330** | **14,663** |

## 6 Bank Deposits

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| JSC TBC Bank | 26,595 | 17,557 | 26,595 | 17,557 |
| JSC Bank of Georgia | 20,389 | 12,952 | 20,389 | 12,952 |
| JSC Liberty Bank | 9,892 | 10,692 | 9,892 | 10,692 |
| JSC Tera Bank | 7,514 | 2,317 | 7,514 | 2,317 |
| JSC VTB Bank | - | 3,386 | - | 3,386 |
| **Total bank deposits** | **64,390** | **46,904** | **64,390** | **46,904** |

GEL 4,200 thousand out of total amount of deposit placed at JSC Liberty Bank and GEL 3,000 thousand out of total amount of deposit placed at JSC TBC Bank are 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 three years and earn annual interest of 11.40% to 14.50%. Bank deposits placed with a related party (JSC TBC Bank) earns an annual interest rate of 12.40% to 13.68%.

Credit ratings of placements with banks were as follows:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| BB- | 46,984 | 33,895 | 46,984 | 33,895 |
| B+ | 17,406 | 13,009 | 17,406 | 13,009 |
| **Total** | **64,390** | **46,904** | **64,390** | **46,904** |

As at 31 December 2022, GEL 14,200 thousand, out of total balance of bank deposits had maturity of less than one year, while the remaining balance had maturity of more than one year and less than three years.

## 7 Investment Securities Held to Maturity

| *In thousands of Georgian Lari* | **Consolidated** | **Separate** |
|---|---|---|
| **Carrying amount as of 1 January 2021** | **1,116** | **1,116** |
| Purchases | 1,946 | 1,946 |
| Interest income accrual | 291 | 291 |
| Interest received | (279) | (279) |
| Bond premium amortization | (16) | (16) |
| Foreign exchange loss | (155) | (155) |
| **Carrying amount as of 31 December 2021** | **2,903** | **2,903** |
| **Carrying amount as of 1 January 2022** | **2,903** | **2,903** |
| Purchases | 2,830 | 2,830 |
| Interest income accrual | 382 | 382 |
| Interest received | (923) | (923) |
| Bond premium amortization | (21) | (21) |
| Foreign exchange loss | (218) | (218) |
| **Carrying amount as of 31 December 2022** | **4,953** | **4,953** |

**Investment securities held to maturity comprise of following corporate bonds:**

| **Investment Company** | **Maturity** | **Rating** | **Carrying Value** |
|---|---|---|---|
| JSC TBC Bank | 03 Oct 2024 | BB- (Fitch Ratings) | 1,200 |
| Tegeta Motors LLC | 16 Dec 2025 | BB- (Scope Ratings) | 1,005 |
| JSC Nikora | 28 Nov 2025 | BB- (Scope Ratings) | 1,003 |
| JSC Georgia Capital | 9 March 2024 | B+ (S&P Ratings) | 832 |
| JSC Georgian Beer Company | 21 Dec 2023 | BB- (Scope Ratings) | 502 |
| JSC Nikora | 12 Nov 2024 | BB- (Scope Ratings) | 411 |
| **Total Investment securities held to maturity** | | | **4,953** |

## 8 Derivative Financial Assets

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group. The table reflects the gross positions before the netting of any counterparty positions (and payments) and covers contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

| **Consolidated and Separate** | **2022** | | **2021** | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Contracts with positive fair value** | **Contracts with negative fair value** | **Contracts with positive fair value** | **Contracts with negative fair value** |
| **Foreign exchange forwards: fair values, at the end of the reporting period, of** | | | | |
| GEL receivable on settlement | 12,451 | - | 11,610 | - |
| USD payable on settlement | (9,997) | - | (11,140) | - |
| EUR payable on settlement | (1,442) | - | - | - |
| **Net fair value of foreign exchange forwards** | **1,012** | **-** | **470** | **-** |

## 8 Derivative Financial Assets (continued)

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

## 9 Investment in Subsidiaries

In year 2022, the Company made capital contribution of GEL 1,350 thousand in its single subsidiary Redmed LLC (2021: GEL 1,526 thousand). There were no other movements in investments in subsidiaries.

## 10 Insurance Receivables

| | Consolidated and separate | |
|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** |
| **Insurance receivables, gross:** | **44,516** | **34,932** |
| Life insurance contracts | 4,022 | 3,222 |
| General insurance contracts | 40,494 | 31,710 |
| **Less – provision for impairment for amounts due from policyholders:** | **(1,950)** | **(1,566)** |
| General insurance contracts | (1,950) | (1,566) |
| **Insurance receivables, net:** | **42,566** | **33,366** |

There is no provision for life insurance contracts as management believes that all amounts are fully collectible (note 28).

## 11 Reinsurance Receivables

| | Consolidated and separate | |
|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** |
| Receivables from reinsurer | 4,162 | 3,489 |
| Commission from reinsurer | 548 | 419 |
| **Total receivables and commission from reinsurer** | **4,710** | **3,908** |
| Less – provision for impairment for amounts due from reinsurers: | (21) | (21) |
| **Total reinsurance receivables, net:** | **4,689** | **3,887** |

## 12 Insurance Contract Reserves and Ceded Share of Insurance Contract Reserves

| *In thousands of Georgian Lari* | Consolidated and separate 2022 | 2021 |
|---|---|---|
| **Insurance contract reserves** | | |
| Unearned premiums reserves | 51,598 | 40,558 |
| Reported but not settled claims | 16,510 | 11,854 |
| Incurred but not reported claims | 749 | 549 |
| **Total insurance contract reserves** | **68,857** | **52,961** |
| **Ceded share of insurance contract reserves** | | |
| Unearned premiums reserves | (6,274) | (4,447) |
| Reported but not settled claims | (4,359) | (4,427) |
| **Ceded share of insurance contract reserves** | **(10,633)** | **(8,874)** |
| **Insurance contracts reserves net of reinsurance** | | |
| Unearned premiums reserves | 45,324 | 36,111 |
| Reported but not settled claims | 12,151 | 7,427 |
| Incurred but not reported claims | 749 | 549 |
| **Total insurance contract reserves net of reinsurance** | **58,224** | **44,087** |

## 12 Insurance Contract Reserves and Ceded Share of Insurance Contract Reserves (Continued)

| **Consolidated and separate** | **2022** | | | **2021** | | |
|---|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Unearned premium reserve** | **Reinsurers share in unearned premium reserve** | **Net** | **Unearned premium reserve** | **Reinsurers share in unearned premium reserve** | **Net** |
| Life Insurance | 845 | (117) | 728 | 392 | (104) | 288 |
| Motor Insurance | 27,021 | (1,133) | 25,888 | 22,179 | (234) | 21,945 |
| Property Insurance | 9,447 | (4,067) | 5,380 | 7,245 | (3,357) | 3,888 |
| Liability Insurance | 1,434 | (913) | 521 | 1,163 | (726) | 437 |
| Health Insurance | 12,155 | - | 12,155 | 9,127 | - | 9,127 |
| Other | 696 | (44) | 652 | 452 | (26) | 426 |
| **Total** | **51,598** | **(6,274)** | **45,324** | **40,558** | **(4,447)** | **36,111** |

| **Consolidated and separate** | **2022** | | | **2021** | | |
|---|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **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 | 5,930 | (3,253) | 2,677 | 3,327 | (2,507) | 820 |
| Motor Insurance | 4,956 | (1,066) | 3,890 | 3,002 | (58) | 2,944 |
| Property Insurance | 1,877 | (40) | 1,837 | 1,266 | (41) | 1,225 |
| Liability Insurance | 87 | - | 87 | 1,930 | (1,821) | 109 |
| Health Insurance | 3,212 | - | 3,212 | 2,178 | - | 2,178 |
| Other | 448 | - | 448 | 151 | - | 151 |
| **Total** | **16,510** | **(4,359)** | **12,151** | **11,854** | **(4,427)** | **7,427** |

Incurred but not reported claims reserve is only related to life and health 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.

| | **Consolidated and separate** | **2022** | | | **2021** | | |
|---|---|---|---|---|---|---|---|
| | *In thousands of Georgian Lari* | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** |
| **a** | Life Insurance Contracts | 7,417 | (3,365) | 4,052 | 4,061 | (2,607) | 1,454 |
| **b** | General Insurance Contracts | 61,440 | (7,268) | 54,172 | 48,900 | (6,267) | 42,633 |
| | **Total Insurance Contract Reserves** | **68,857** | **(10,633)** | **58,224** | **52,961** | **(8,874)** | **44,087** |

## 12 Insurance Contract Reserves and Ceded Share of Insurance Contract Reserves (Continued)

| | **Consolidated and separate** | **2022** | | | **2021** | | |
|---|---|---|---|---|---|---|---|
| | *In thousands of Georgian Lari* | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** | **Insurance contract reserves** | **Reinsurers' share of insurance contract reserves** | **Net** |
| **a** | **At 1 January** | **4,061** | **(2,607)** | **1,454** | **2,681** | **(1,731)** | **950** |
| | Change in estimates of the opening reserves | (145) | 808 | **663** | (443) | 332 | **(111)** |
| | Premiums written during the year | 38,873 | (7,426) | **31,447** | 32,267 | (5,943) | **26,324** |
| | Premiums earned during the year | (38,422) | 7,413 | **(31,009)** | (32,051) | 5,949 | **(26,102)** |
| | Claims incurred during the year | 11,327 | (8,046) | **3,281** | 12,233 | (9,168) | **3,065** |
| | Claims settled during the year | (8,580) | 6,493 | **(2,087)** | (10,629) | 7,954 | **(2,675)** |
| | Incurred but not reported claims | 303 | - | **303** | 3 | - | **3** |
| | **At 31 December** | **7,417** | **(3,365)** | **4,052** | **4,061** | **(2,607)** | **1,454** |

| | **Consolidated and separate** | **2022** | | | **2021** | | |
|---|---|---|---|---|---|---|---|
| | *In thousands of Georgian Lari* | **Insurance contract reserves** | **Reinsurers' share of Insurance contract reserves** | **Net** | **Insurance contract reserves** | **Reinsurers' share of Insurance contract reserves** | **Net** |
| **b** | **At 1 January** | **48,900** | **(6,267)** | **42,633** | **35,846** | **(5,778)** | **30,068** |
| | Change in estimates of the opening reserves | 1,974 | (1,511) | **463** | 576 | (1,036) | **(460)** |
| | Premiums written during the year | 108,907 | (11,993) | **96,914** | 81,507 | (9,853) | **71,654** |
| | Premiums earned during the year | (98,318) | 10,179 | **(88,139)** | (70,061) | 9,183 | **(60,878)** |
| | Claims incurred during the year | 57,517 | (1,344) | **56,173** | 39,418 | (400) | **39,018** |
| | Claims settled during the year | (57,437) | 3,668 | **(53,769)** | (38,455) | 1,617 | **(36,838)** |
| | Incurred but not reported claims | (103) | - | **(103)** | 69 | - | **69** |
| | **At 31 December** | **61,440** | **(7,268)** | **54,172** | **48,900** | **(6,267)** | **42,633** |
| | **Total insurance contract reserves** | **68,857** | **(10,633)** | **58,224** | **52,961** | **(8,874)** | **44,087** |

## 12 Insurance Contract Reserves and Ceded Share of Insurance Contract Reserves (Continued)

The methods for determining various types of insurance liabilities

(i) Unearned premium provision

The provision for unearned premium is based on written premiums and is calculated on a proportional basis in respect of the unexpired term of the policy for which the premium has been received.

(ii) Provision for outstanding claims

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date, but not yet settled (RBNS) and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR – Note 4).

RBNS is created for known outstanding claims that include an appropriate provision for settlement and handling expenses. This provision is based mainly on an individual valuation for each claim according to the opinion obtained from the insured, legal advisors and the Company's experts that handle the claims.

## 13 Deferred Acquisition Cost

| *In thousands of Georgian Lari* | **Consolidated and Separate** |
|---|---|
| **At 1 January 2021** | **1,204** |
| Deferred expenses | 3,071 |
| Amortisation of deferred expenses | (2,801) |
| **At 31 December 2021** | **1,474** |
| Deferred expenses | 3,940 |
| Amortisation of deferred expenses | (3,441) |
| **At 31 December 2022** | **1,973** |

## 14 Other Assets

| | **Consolidated** | | **Separate** | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| Restricted cash | 741 | 671 | 741 | 671 |
| Assets transferred through subrogation | 191 | 250 | 191 | 250 |
| Prepayments | 184 | 669 | 188 | 662 |
| Inventories | 33 | 79 | 32 | 78 |
| Other receivables | 204 | 230 | 174 | 174 |
| **Total Other Assets** | **1,353** | **1,899** | **1,326** | **1,835** |

Majority of prepayments are attributable to the partner provider clinic.

## 15 Right-of-Use Assets and Lease Liabilities

The Group leases only offices. Rental contracts are typically made for fixed periods from 6 months to 5 years but may have extension options as described below.

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Offices** | **Total** | **Offices** | **Total** |
| **Carrying amount at 1 January 2021** | **1,084** | **1,084** | **1,068** | **1,068** |
| Additions | 896 | 896 | 811 | 811 |
| Disposals | - | - | - | - |
| Depreciation charge | (712) | (712) | (676) | (676) |
| **Carrying amount at 31 December 2021** | **1,268** | **1,268** | **1,203** | **1,203** |
| **Carrying amount at 1 January 2022** | **1,268** | **1,268** | **1,203** | **1,203** |
| Additions | 877 | 877 | 841 | 841 |
| Disposals | (31) | (31) | - | - |
| Depreciation charge | (799) | (799) | (751) | (751) |
| **Carrying amount at 31 December 2022** | **1,315** | **1,315** | **1,293** | **1,293** |

Reconciliation of lease liabilities

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Year ended 31 December 2022** | **Year ended 31 December 2021** | **Year ended 31 December 2022** | **Year ended 31 December 2021** |
| **Lease liabilities at 1 January** | **1,470** | **1,449** | **1,414** | **1,437** |
| **Cash flows** | **(924)** | **(966)** | **(887)** | **(920)** |
| Repayments of principal | (842) | (854) | (809) | (811) |
| Interest payments | (82) | (112) | (78) | (109) |
| **Non-cash changes** | **793** | **987** | **793** | **897** |
| Interest accrual | 82 | 112 | 78 | 109 |
| New leases | 846 | 897 | 841 | 812 |
| Foreign exchange adjustments | (135) | (22) | (126) | (24) |
| **Lease liabilities at 31 December** | **1,339** | **1,470** | **1,320** | **1,414** |

The Group recognised lease liabilities as follows:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Year ended 31 December 2022** | **Year ended 31 December 2021** | **Year ended 31 December 2022** | **Year ended 31 December 2021** |
| Short-term lease liabilities | 818 | 6 | 797 | 6 |
| Long-term lease liabilities | 521 | 1,464 | 523 | 1,408 |
| **Total lease liabilities** | **1,339** | **1,470** | **1,320** | **1,414** |

In year 2022 expenses relating to leases of low-value assets (included in general and administrative expenses) comprise GEL 106 thousand (2021: GEL 110 thousand).

## 16 Property and Equipment

**Consolidated**

| *In thousands of Georgian Lari* | Furniture and computer equipment | Motor vehicles | Leasehold improvements | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance at 1 January 2021 | 1,408 | 183 | 1,158 | 2,749 |
| Additions | 176 | 259 | 223 | 658 |
| Disposals | (95) | (23) | (4) | (122) |
| **Balance at 31 December 2021** | **1,489** | **419** | **1,377** | **3,285** |
| Balance at 1 January 2022 | 1,489 | 419 | 1,377 | 3,285 |
| Additions | 300 | 91 | 38 | 429 |
| Disposals | (68) | (151) | - | (219) |
| **Balance at 31 December 2022** | **1,721** | **359** | **1,415** | **3,495** |
| **Accumulated Depreciation:** | | | | |
| Balance at 1 January 2021 | 660 | 26 | 634 | 1,320 |
| Charge for the year | 275 | 29 | 281 | 585 |
| Disposals | (82) | (5) | (4) | (91) |
| **Balance at 31 December 2021** | **853** | **50** | **911** | **1,814** |
| Balance at 1 January 2022 | 853 | 50 | 911 | 1,814 |
| Charge for the year | 283 | 43 | 240 | 566 |
| Disposals | (53) | (24) | - | (77) |
| **Balance at 31 December 2022** | **1,083** | **69** | **1,151** | **2,303** |
| **Net Book Value** | | | | |
| **31 December 2021** | **636** | **369** | **466** | **1,471** |
| **31 December 2022** | **638** | **290** | **264** | **1,192** |

## 16 Property and Equipment (Continued)

**Separate**

| *In thousands of Georgian Lari* | **Furniture and computer equipment** | **Motor vehicles** | **Leasehold improvements** | **Total** |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance at 1 January 2021 | 1,319 | 183 | 1,154 | 2,656 |
| Additions | 176 | 259 | 223 | 658 |
| Disposals | (94) | (23) | - | (117) |
| **Balance at 31 December 2021** | **1,401** | **419** | **1,377** | **3,197** |
| Balance at 1 January 2022 | 1,401 | 419 | 1,377 | 3,197 |
| Additions | 300 | 91 | 38 | 429 |
| Disposals | (63) | (151) | - | (214) |
| **Balance at 31 December 2022** | **1,638** | **359** | **1,415** | **3,412** |
| **Accumulated Depreciation:** | | | | |
| Balance at 1 January 2021 | 637 | 26 | 631 | 1,294 |
| Charge for the year | 257 | 29 | 280 | 566 |
| Disposals | (81) | (5) | - | (86) |
| **Balance at 31 December 2021** | **813** | **50** | **911** | **1,774** |
| Balance at 1 January 2022 | 813 | 50 | 911 | 1,774 |
| Charge for the year | 265 | 43 | 240 | 548 |
| Disposals | (49) | (24) | - | (73) |
| **Balance at 31 December 2022** | **1,029** | **69** | **1,151** | **2,249** |
| **Net Book Value** | | | | |
| **31 December 2021** | **588** | **369** | **466** | **1,423** |
| **31 December 2022** | **609** | **290** | **264** | **1,163** |

## 17 Intangible Assets

**Consolidated**

| *In thousands of Georgian Lari* | **Licenses** | **Computer & Other software** | **Total** |
|---|---|---|---|
| **Cost:** | | | |
| Balance at 1 January 2021 | 102 | 3,743 | 3,845 |
| Additions | 19 | 2,221 | 2,240 |
| Disposals | - | - | - |
| **Balance at 31 December 2021** | **121** | **5,964** | **6,085** |
| Balance at 1 January 2022 | 121 | 5,964 | 6,085 |
| Additions | 128 | 2,544 | 2,672 |
| Disposals | - | (17) | (17) |
| **Balance at 31 December 2022** | **249** | **8,491** | **8,740** |
| **Accumulated Amortisation:** | | | |
| Balance at 1 January 2021 | 86 | 910 | 996 |
| Charge for the year | 19 | 802 | 821 |
| **Balance at 31 December 2021** | **105** | **1,712** | **1,817** |
| Balance at 1 January 2022 | 105 | 1,712 | 1,817 |
| Charge for the year | 87 | 1,201 | 1,288 |
| **Balance at 31 December 2022** | **192** | **2,913** | **3,105** |
| **Net Book Value** | | | |
| **31 December 2021** | **16** | **4,252** | **4,268** |
| **31 December 2022** | **57** | **5,578** | **5,635** |

**Separate**

| *In thousands of Georgian Lari* | **Licenses** | **Computer & Other software** | **Total** |
|---|---|---|---|
| **Cost:** | | | |
| Balance at 1 January 2021 | 66 | 2,962 | 3,028 |
| Additions | 19 | 1,752 | 1,771 |
| **Balance at 31 December 2021** | **85** | **4,714** | **4,799** |
| Balance at 1 January 2022 | 85 | 4,714 | 4,799 |
| Additions | 128 | 2,074 | 2,202 |
| Disposals | - | (17) | (17) |
| **Balance at 31 December 2022** | **213** | **6,771** | **6,984** |
| **Accumulated Amortisation:** | | | |
| Balance at 1 January 2021 | 50 | 938 | 988 |
| Charge for the year | 19 | 719 | 738 |
| Disposals | - | - | - |
| **Balance at 31 December 2021** | **69** | **1,657** | **1,726** |
| Balance at 1 January 2022 | 69 | 1,657 | 1,726 |
| Charge for the year | 87 | 1,081 | 1,168 |
| Disposals | - | - | - |
| **Balance at 31 December 2022** | **156** | **2,738** | **2,894** |
| **Net Book Value** | | | |
| **31 December 2021** | **16** | **3,057** | **3,073** |
| **31 December 2022** | **57** | **4,033** | **4,090** |

## 18 Equity

### (a) Share capital

As at 31 December 2022, the Group had an authorized share capital of GEL 15,000 thousand (31 December 2021: GEL 15,000 thousand). 7,481,870 shares with par value of GEL 1 were issued and fully paid as of 31 December 2022 and 31 December 2021.

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 Group.

### (b) Dividends

In accordance with Georgian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory consolidated and separate financial statements prepared in accordance with IFRSs.

| | Consolidated and Separate | |
|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** |
| **Dividends payable at 1 January** | - | - |
| Dividends declared during the year | 10,026 | 7,003 |
| Dividends paid during the year | (10,026) | (7,003) |
| **Dividends payable at 31 December** | **-** | **-** |
| **Dividends per share declared during the year (GEL)** | **1.34** | **0.94** |

### (c) Other reserves

GEL 1,300 thousand in other reserves as at 31 December 2022 and 31 December 2021 consists of the accumulated result of the sale of subsidiaries to entities under common control. There have been no movements in other reserves in years 2022 and 2021.

## 19 Reinsurance Payables

| | Consolidated and Separate | |
|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** |
| Reinsurance premium payables | 9,834 | 7,819 |
| Reinsurance subrogation and recoveries payables | 145 | - |
| **Reinsurance payables** | **9,979** | **7,819** |

## 20 Share Based Payment Liabilities

In 2021 TBC Insurance JSC approved a compensation scheme for the top management, according to which, subject to the performance and service conditions, each year the company grants to the top management for service of the five years (2019 – 2023) phantom shares which shall be converted in the actual shares of its parent entity (TBC Bank Group PLC). No dividend is paid on Phantom shares and there is restriction on any disposition and pledge of these rights; also, no voting rights are attached to phantom shares.

## 20 Share Based Payment Liabilities (Continued)

The individual performance indicators are set on an individual basis and are used to calculate the award amount provided to each employee.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Under this compensation system the vesting period for each year's award extends to March 2024.

The conversion from phantom shares to real shares is done by the TBC Insurance JSC and TBC Bank Group PLC based on the actual IFRS results immediately preceding the date of conversion and on the predetermined formula..

The amount of the award calculated by management makes best estimate of the company's financial metrics in the fifth year (2023) as well as fulfilment of performance conditions.

The award as well as respective personal income tax is accounted as cash settled share-based payment under IFRS 2. An expense is recognized in the income statement using graded vesting method over the vesting period which is until March 2024 for each year's award; and a liability is recorded as the other side of the entry. The liability is re-measured at each reporting date until settlement. As long as the amount of award is dependent on fulfilment of performance and service conditions, management revises estimated value of award based on forecasted achievement throughout 5 years and financial metrics in the fifth year and adjusts the liability accordingly.

Transition adjustment of the old scheme to the new scheme – The liability is reclassified from other liabilities to share based payment liability balance sheet item. The modification catch-up adjustment is made through profit or loss.

| | **Consolidated and Separate** | |
|---|---|---|
| *In thousands of Georgian Lari* | **31-Dec-2022** | **31-Dec-2021** |
| **Liability at the beginning of the period** | **(4,133)** | **(2,615)** |
| Remeasurement of PY award | (91) | 97 |
| Current year award | (1,514) | (1,378) |
| Unwinding for present value discount | (391) | (237) |
| **Total expense recognized as staff cost during the period** | (1,996) | (1,518) |
| **Share based payment liability at the end of the period** | **(6,129)** | **(4,133)** |

## 21 Other Liabilities

| | **Consolidated** | | **Separate** | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| Advances received | 805 | 1,532 | 805 | 1,532 |
| Accruals for employee compensation | 2,064 | 1,702 | 2,064 | 1,702 |
| Other liabilities | 260 | 95 | 260 | 89 |
| **Total other liabilities** | **3,129** | **3,329** | **3,129** | **3,323** |

## 22 Net Earned Premiums

| | Consolidated and Separate | |
|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** |
| Premium written on life insurance contracts | 38,873 | 32,267 |
| Premium written on general insurance contracts | 108,907 | 81,507 |
| **Total premiums written** | **147,780** | **113,774** |
| Change in gross reserves for life unearned premiums | (451) | (216) |
| Change in gross reserves for general unearned premiums | (10,589) | (11,446) |
| **Total earned premiums** | **136,740** | **102,112** |
| Reinsurers' earned premium on life insurance contracts | (7,413) | (5,948) |
| Reinsurers' earned premium on general insurance contracts | (10,179) | (9,183) |
| **Total net earned premiums** | **119,148** | **86,981** |

## 23 Interest Income

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| Interest income on Certificate of Deposit | 5,620 | 4,556 | 5,620 | 4,556 |
| Interest income on Current Accounts | 1,266 | 788 | 1,264 | 786 |
| Interest income on Bonds | 361 | 275 | 361 | 275 |
| Interest income, other | 84 | 128 | 84 | 128 |
| **Interest income recognised in profit or loss** | **7,331** | **5,747** | **7,329** | **5,745** |

## 24 Net Claims Incurred

| | Consolidated and Separate | |
|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** |
| Life insurance claims settled | (8,580) | (10,629) |
| General insurance claims settled | (57,437) | (38,455) |
| Reinsurer's share of life insurance claims settled | 6,493 | 7,954 |
| Reinsurer's share of general insurance claims settled | 3,668 | 1,617 |
| **Total net claims settled** | **(55,856)** | **(39,513)** |
| Gross change in reported but not settled claims | (4,656) | (2,700) |
| Incurred but not reported claims | (200) | (72) |
| Reinsurer's share of change in reported but not settled claims | (68) | 701 |
| Subrogation and Recoveries | 4,639 | 5,343 |
| Expenses Associated with Claims | (1,782) | (927) |
| **Net claims incurred** | **(57,923)** | **(37,168)** |

## 24 Net Claims Incurred (Continued)

Distribution of claims incurred for contracts entered into force during 2022 and 2021 between product types are set out below:

| **Consolidated and Separate** *In thousands of Georgian Lari* | **Claims settled** | **Reported but not settled claims** | **Total claims** | **Reinsurer's share in claims settled** | **Reinsurer's share in reported but not settled claims** | **Total reinsurer's share in claims** |
|---|---|---|---|---|---|---|
| | | | | **2022** | | |
| Life Insurance | 5,218 | 2,513 | 7,731 | 3,928 | 1,891 | 5,819 |
| Motor Insurance | 18,369 | 4,098 | 22,467 | 1,423 | 1,066 | 2,489 |
| Property Insurance | 656 | 387 | 1,043 | - | - | - |
| Liability Insurance | 12 | 29 | 41 | - | - | - |
| Health Insurance | 9,028 | 2,745 | 11,773 | - | - | - |
| Other | 861 | 644 | 1,505 | 132 | - | 132 |
| **Total** | **34,144** | **10,416** | **44,560** | **5,483** | **2,957** | **8,440** |

| **Consolidated and Separate** *In thousands of Georgian Lari* | **Claims settled** | **Reported but not settled claims** | **Total claims** | **Reinsurer's share in claims settled** | **Reinsurer's share in reported but not settled claims** | **Total reinsurer's share in claims** |
|---|---|---|---|---|---|---|
| | | | | **2021** | | |
| Life Insurance | 7,962 | 1,873 | 9,835 | 6,000 | 1,417 | 7,417 |
| Motor Insurance | 11,755 | 2,173 | 13,928 | 147 | 58 | 205 |
| Property Insurance | 479 | 395 | 874 | - | - | - |
| Liability Insurance | 13 | 100 | 113 | - | - | - |
| Health Insurance | 7,273 | 2,090 | 9,363 | - | - | - |
| Other | 2,072 | 256 | 2,328 | 1,342 | 17 | 1,359 |
| **Total** | **29,554** | **6,887** | **36,441** | **7,489** | **1,492** | **8,981** |

## 25 Acquisition Costs

| *In thousands of Georgian Lari* | **Consolidated and Separate 2022** | **Consolidated and Separate 2021** |
|---|---|---|
| Acquisition costs | (24,558) | (18,846) |
| Acquisition costs deferred | 3,940 | 3,071 |
| Amortisation of deferred acquisition costs | (3,442) | (2,801) |
| **Total acquisition costs** | **(24,060)** | **(18,576)** |

Acquisition costs are expenses related to inception of an insurance contract. Respective liability with amount of GEL 19,736 thousand (2021: GEL 15,634 thousand) is shown under "Commission payables" in the Company's statement of financial position.

## 26 Salaries & Other Employee Benefits

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| Salaries | (8,316) | (7,282) | (7,788) | (6,736) |
| Management bonuses | (3,553) | (2,758) | (3,553) | (2,758) |
| Other bonuses | (2,128) | (1,897) | (2,128) | (1,897) |
| Insurance and other benefits | (838) | (528) | (783) | (496) |
| **Total salaries & other employee benefits** | **(14,835)** | **(12,465)** | **(14,252)** | **(11,887)** |

## 27 General and Administrative Expenses

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **2022** | **2021** | **2022** | **2021** |
| Marketing and PR | (1,607) | (900) | (1,396) | (717) |
| Supervisory Fee | (1,365) | (1,020) | (1,365) | (1,020) |
| Software and Technical Support | (1,089) | (1,152) | (1,015) | (1,055) |
| Professional service fee | (630) | (411) | (627) | (410) |
| Office purchases | (366) | (362) | (362) | (356) |
| Post, Telecomm, Utilities | (356) | (276) | (347) | (271) |
| Bank fees and other commissions | (313) | (239) | (313) | (239) |
| Office Rent | (270) | (269) | (264) | (256) |
| Tax (other than on income) | (205) | (157) | (205) | (157) |
| BMTPL Management Fee* | (205) | (216) | (205) | (216) |
| Car fuel and other expenses | (156) | (132) | (156) | (132) |
| Business trips | (71) | (27) | (71) | (27) |
| Representative expenses | (35) | (20) | (35) | (20) |
| Other Admin Costs | (877) | (619) | (786) | (596) |
| **Total General and administrative expenses** | **(7,545)** | **(5,800)** | **(7,147)** | **(5,472)** |

* In year 2018 a non-profit (non-commercial) legal entity Compulsory Insurance Center (The Center) was established in accordance with the legislation of Georgia for the management of compulsory motor third party liability (BMTPL) insurance by the insurers participating in the insurance system. Insurers contribute monthly management fees to the Center, the main functions and responsibilities of which are non-stop client services, realization of insurance policy and regulation of losses.

Professional service fee above includes GEL 172 thousand (2021: GEL 124 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.

## 28 Impairment Charge

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

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | Insurance Receivables | Reinsurance Receivables | Insurance Receivables | Reinsurance Receivables |
| **At 1 January 2021** | **(1,309)** | **(21)** | **(1,309)** | **(21)** |
| Charge | (257) | - | (257) | - |
| **At 31 December 2021** | **(1,566)** | **(21)** | **(1,566)** | **(21)** |
| Charge | (384) | - | (384) | - |
| **At 31 December 2022** | **(1,950)** | **(21)** | **(1,950)** | **(21)** |

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

## 29 Other Expenses

In 2022 the Group initiated IFRS 17 implementation project. Respective expense of GEL 346 thousand is accounted as other expenses in the Group's financial statements.

## 30 Income Tax Expense

Income tax expense comprises of the following:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | 2022 | 2021 | 2022 | 2021 |
| Current tax | 3,509 | 2,664 | 3,509 | 2,664 |
| Deferred tax charge/(credit) | (70) | 47 | (70) | 47 |
| **Income tax expense for the year** | **3,439** | **2,711** | **3,439** | **2,711** |

The Group's applicable income tax rate was 15% in 2022 (2021: 15%).

Reconciliation between the expected and the actual taxation charge is provided below:

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | 2022 | 2021 | 2022 | 2021 |
| **Profit Before Tax** | **20,829** | **16,940** | **20,829** | **16,939** |
| Theoretical tax charge at statutory rate | 3,124 | 2,541 | 3,124 | 2,541 |
| - Income which is exempt from taxation | (206) | (185) | (206) | (185) |
| - Non-deductible expenses | 521 | 355 | 521 | 355 |
| **Income tax expense for the year** | **3,439** | **2,711** | **3,439** | **2,711** |

## 30 Income Tax Expense (Continued)

On 13 May 2016 the Parliament of Georgia passed a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. On 28th of December 2018, the law was further amended marking 1 January 2023 as the effective date for enacting the law for the financial institutions (banks, insurance companies, etc.). In December 2022, the effective date was again postponed to 1 January 2024.

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 2024 and hence, no deferred income tax assets and liabilities will arise, there on.

## 31 Offsetting Financial Assets and Financial Liabilities

As of 31 December 2022 and 2021, there were no financial instruments subject to offsetting, enforceable master netting and similar arrangements.

## 32 Management of Capital

### (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 Group's risk profile. The capital management of the Group 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 Group thereby providing a degree of security to policyholders.

It is in the Group'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 Group is financed through the issuance of shares. Maintaining a good capital base in the future is of crucial importance to the Group, both to allow the Group to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

As part of the process of monitoring and managing its capital, the Group has implemented controls over conformity of the composition and structure of the assets, enabling the Group 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.

### (b) Regulatory requirements

According to the ISSSG directive, an insurance company should meet the minimum capital requirement throughout the period and should, at all times, maintain a total of this amount in either cash and cash equivalents or in bank balances. According to the directive №27 of ISSSG, minimum capital requirement comprises of had increased from GEL 7,200 thousand.

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.

## 32 Management of Capital (Continued)

JSC TBC Insurance was in compliance with capital requirements set by ISSSG during 2022 and 2021.

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 consolidated and separate financial statements were authorized for issue, the Group was in full compliance with the level of Regulatory Capital in respect of 100% of RSM.

## 33 Insurance Risk Management

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

The primary insurance activity carried out by the Group 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 Group 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 Group also has exposure to market risk through its insurance and investment activities. The Group 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 Group's underwriting strategy seeks diversity so that the Group'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 Group'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.

#### *(ii) Reinsurance strategy*

The Group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys Treaty reinsurance for the biggest lines of business, Life, Casco 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 Group monitors the financial condition of reinsurers on an on-going basis and reviews its reinsurance arrangements 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 Group's main products and the ways in which it manages the associated risks.

## 33 Insurance Risk Management (Continued)

***(i) Motor insurance***

***Product features***

The Group 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 Group 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 Group’s current experience.

***(ii) Property insurance***

***Product features***

The Group 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 Group is also exposed to the risk of exaggeration and dishonest action by claimants.

Underwriting risk is the risk that the Group 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 Group uses strict underwriting criteria to ensure that the risk of losses is acceptable to the Group. The Group reinsures its property risks by way of Excess of Loss, Surplus and Nat Cat treaties.

***(iii) Life insurance***

Product features

The Group 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 the financial institution or for a pre-determined amount.

## 33 Insurance Risk Management (Continued)

***Management of risk***

The Group's underwriting strategy is to ensure that risks are well diversified by industry sectors and geography. The Group also has the right to reject payment in case a fraudulent claim is identified. The Group uses reinsurance contracts for all life insurance risks and the exposure of risk is limited to 25% 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, an incurred but not reported claims reserve is set up for life insurance contracts, calculated according to the chain-ladder statistical methodology.

***(iv) Health insurance***

***Product features***

Share of health insurance in the Group's total insurance business increased from 16% to 19% in the year 2022 in terms of gross premium written. Health insurance contracts pay benefits for medical treatments and hospital expenses of the beneficiaries. The portfolio fully consists of collective corporate contracts.

***Management of risk***

Health insurance subject is primarily peril of the need for a medical treatment. The Group manages its risks through writing collective corporate contracts and pricing policy according to the current health conditions of beneficiaries. Besides, the Group uses services of its partner healthcare providers and pharmacies based on pre-agreed prices.

### (c) Concentrations of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk which may exist where a particular event or series of events could impact significantly upon the Group'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 group, such as a particular geography.

The Group'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 Group purchases reinsurance coverage for various classes of its motor, life and property business. The Group 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 Group. 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 consolidated and separate financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Group believes that the estimate of total claims outstanding at the end of 2022 is adequa

## 33 Insurance Risk Management (Continued)

### Estimate of cumulative claims gross

| *In thousands of Georgian Lari* | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Accident Year | 5,415 | 4,131 | 10,830 | 49,050 | 32,549 | 39,583 | 51,648 | 68,844 | - |
| One Year Later | 5,632 | 4,117 | 11,214 | 20,552 | 31,981 | 39,625 | 53,094 | - | - |
| Two Years Later | 5,674 | 4,131 | 11,194 | 20,611 | 32,097 | 39,754 | - | - | - |
| Three Years Later | 5,780 | 4,123 | 11,218 | 20,593 | 32,294 | - | - | - | - |
| Four Years Later | 5,817 | 4,123 | 11,218 | 20,640 | - | - | - | - | - |
| Five Years Later | 5,771 | 4,123 | 11,222 | - | - | - | - | - | - |
| Six Years Later | 5,766 | 4,123 | - | - | - | - | - | - | - |
| Seven Years Later | 5,774 | - | - | - | - | - | - | - | - |
| **Current estimate of incurred claims gross** | **5,774** | **4,123** | **11,222** | **20,640** | **32,294** | **39,754** | **53,094** | **68,844** | **235,745** |
| Accident Year | (4,724) | (3,580) | (8,621) | (16,978) | (26,917) | (31,279) | (43,512) | (56,585) | - |
| One Year Later | (5,569) | (4,108) | (11,145) | (20,428) | (31,279) | (36,540) | (50,880) | - | - |
| Two Years Later | (5,584) | (4,108) | (11,174) | (20,546) | (31,586) | (38,483) | - | - | - |
| Three Years Later | (5,659) | (4,123) | (11,218) | (20,548) | (31,622) | - | - | - | - |
| Four Years Later | (5,659) | (4,123) | (11,218) | (20,550) | - | - | - | - | - |
| Five Years Later | (5,689) | (4,123) | (11,218) | - | - | - | - | - | - |
| Six Years Later | (5,689) | (4,123) | - | - | - | - | - | - | - |
| Seven Years Later | (5,774) | - | - | - | - | - | - | - | - |
| **Cumulative payments to date** | **(5,774)** | **(4,123)** | **(11,218)** | **(20,550)** | **(31,622)** | **(38,483)** | **(50,880)** | **(56,585)** | **(219,235)** |
| **Gross outstanding claims reserve** | **-** | **-** | **4** | **90** | **672** | **1,271** | **2,214** | **12,259** | **16,510** |

## 33 Insurance Risk Management (Continued)

### Estimate of cumulative claims net

| *In thousands of Georgian Lari* | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Accident Year | 3,801 | 3,703 | 6,120 | 7,453 | 16,242 | 29,948 | 42,082 | 59,453 | - |
| One Year Later | 4,182 | 3,900 | 6,327 | 5,815 | 15,901 | 29,307 | 42,806 | - | - |
| Two Years Later | 4,209 | 3,914 | 6,316 | 5,818 | 15,970 | 29,324 | - | - | - |
| Three Years Later | 4,277 | 3,906 | 6,329 | 5,817 | 16,296 | | - | - | - |
| Four Years Later | 4,300 | 3,723 | 6,329 | 5,864 | - | - | - | - | - |
| Five Years Later | 4,376 | 3,723 | 6,333 | - | - | - | - | - | - |
| Six Years Later | 4,379 | 3,723 | - | - | - | - | - | - | - |
| Seven Years Later | 4,387 | - | - | - | - | - | - | - | - |
| | | | | | | | | | - |
| **Current estimate of incurred claims net** | **4,387** | **3,723** | **6,333** | **5,864** | **16,296** | **29,324** | **42,806** | **59,453** | **168,186** |
| Accident Year | (3,358) | (3,107) | (4,877) | (5,710) | (12,592) | (24,941) | (36,043) | (50,663) | - |
| One Year Later | (4,182) | (3,912) | (6,333) | (5,714) | (15,676) | (28,199) | (41,021) | - | - |
| Two Years Later | (4,197) | (3,800) | (6,526) | (5,698) | (15,795) | (28,308) | - | - | - |
| Three Years Later | (4,272) | (3,906) | (6,329) | (5,789) | (15,813) | - | - | - | - |
| Four Years Later | (4,272) | (3,723) | (6,329) | (5,791) | - | - | - | - | - |
| Five Years Later | (4,302) | (3,723) | (6,329) | - | - | - | - | - | - |
| Six Years Later | (4,302) | (3,723) | - | - | - | - | - | - | - |
| Seven Years Later | (4,387) | - | - | - | - | - | - | - | - |
| **Cumulative payments to date** | **(4,387)** | **(3,723)** | **(6,329)** | **(5,791)** | **(15,813)** | **(28,308)** | **(41,021)** | **(50,663)** | **(156,035)** |
| **Net outstanding claims reserve** | **-** | **-** | **4** | **73** | **483** | **1,016** | **1,785** | **8,790** | **12,151** |

## 33 Insurance Risk Management (Continued)

### *(V) Liability adequacy test*

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets 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 the related deferred acquisition cost is written down and, if necessary, an additional reserve (unexpired risk reserve) is established. The deficiency is recognised in profit or loss for the year. During 2022 and 2021 no shortfall was identified and therefore there was no need for additional URR reserve.

### (E) Reinsurance risk

The Group cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. The reinsurance business ceded is placed on a proportional and non-proportional quota share/excess of loss basis with retention limits varying by product line. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Group's evaluation of the specific risk. All significant risks in all business lines the Company writes business are taken only with facultative cover with no significant retention. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Group 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 Group considers their relative creditworthiness.

## 34 Fair Values and Risk Management

### (a) Fair value of financial assets and liabilities

A number of the Group'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 Group 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.

## 34 Fair Values and Risk Management (Continued)

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

| | Consolidated | | | | | | | | Separate | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31-December-2022 | | | | 31-December-2021 | | | | 31-December-2022 | | | | 31-December-2021 | | | |
| *In thousands of Georgian Lari* | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| Cash and cash equivalents | - | 15,390 | - | **15,390** | - | 14,751 | - | **14,751** | - | 15,330 | - | **15,330** | - | 14,663 | - | **14,663** |
| Certificates of deposits | - | 64,390 | - | **64,390** | - | 43,516 | - | **43,516** | - | 64,390 | - | **64,390** | - | 43,516 | - | **43,516** |
| Term deposits | - | - | - | **-** | - | 3,388 | - | **3,388** | - | - | - | **-** | - | 3,388 | - | **3,388** |
| Investment securities held to maturity | 4,910 | - | - | **4,910** | 1,948 | - | - | **1,948** | 4,910 | - | - | **4,910** | 1,948 | - | - | **1,948** |
| **Total assets** | **4,910** | **79,780** | - | **84,690** | **1,948** | **61,655** | - | **63,603** | **4,910** | **79,720** | - | **84,630** | 1,948 | **61,567** | - | **63,515** |
| Other financial liabilities | - | 3,853 | - | **3,853** | - | 2,186 | - | **2,186** | - | 3,851 | - | **3,851** | - | 2,176 | - | **2,176** |
| **Total liabilities** | **-** | **3,853** | **-** | **3,853** | **-** | **2,186** | **-** | **2,186** | **-** | **3,851** | **-** | **3,851** | **-** | **2,176** | **-** | **2,176** |

### (ii) Recurring fair value measurements:

| | Consolidated | | | | | | | | Separate | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31-December-2022 | | | | 31-December-2021 | | | | 31-December-2022 | | | | 31-December-2021 | | | |
| *In thousands of Georgian Lari* | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 | **Total** |
| Derivative financial assets | - | 1,012 | - | **1,012** | - | 470 | - | **470** | - | 1,012 | - | **1,012** | - | 470 | - | **470** |
| **Total assets** | - | **1,012** | **-** | **1,012** | - | **470** | **-** | **470** | - | **1,012** | **-** | **1,012** | - | **470** | **-** | **470** |

The fair values in level 2 and level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts due to short maturities of most of the aforementioned instruments. Interest rates of investment securities held to maturity are tied to National Bank of Georgia rates and therefore carrying amount approximates fair value.

## 34 Fair Values and Risk Management (Continued)

### (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. At the reporting date (as well as in financial year 2021) all financial assets other than investment securities held to maturity were classified as (a) loans and receivables. Investment securities held to maturity were classified as (c) financial assets held to maturity. All of the Group's financial liabilities were carried at amortised cost.

### (c) Derivative financial assets

Derivative financial assets consist of foreign exchange forward contracts used to manage Group's exposure to fluctuations in foreign currency exchange rates. Inputs used to determine fair value of the derivative assets are foreign exchange rates and are all directly observable on the active market.

### (d) Financial risk management

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

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

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

#### *(i) Risk management framework*

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, 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 Group's management compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

#### *(ii) Credit risk*

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

## 34 Fair Values and Risk Management (Continued)

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

The Group 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.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated and separate statement of financial position. For financial guarantees issued, the maximum exposure to credit risk is the amount of the commitment.

### *Credit exposure*

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

| | **Consolidated** | | **Separate** | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **31 December 2022** | **31 December 2021** | **31 December 2022** | **31 December 2021** |
| Cash and cash equivalents | 15,390 | 14,751 | 15,330 | 14,663 |
| Bank Deposits | 64,390 | 46,904 | 64,390 | 46,904 |
| Investment Securities Held to Maturity | 4,953 | 2,903 | 4,953 | 2,903 |
| Derivative Financial Assets | 1,012 | 470 | 1,012 | 470 |
| Insurance receivables | 42,566 | 33,366 | 42,566 | 33,366 |
| Reinsurance receivables | 4,689 | 3,887 | 4,689 | 3,887 |
| Ceded share of insurance contract reserves (RBNS) | 4,359 | 4,427 | 4,359 | 4,427 |
| Other assets | - | 742 | - | 684 |
| **Total credit exposure** | **137,359** | **107,450** | **137,299** | **107,304** |

The ageing of insurance receivables at the reporting date was:

**Consolidated and separate**

| *In thousands of Georgian Lari* | **Gross 2022** | **Impairment 2022** | **Net 2022** | **Gross 2021** | **Impairment 2021** | **Net 2021** |
|---|---|---|---|---|---|---|
| Not past due | 37,401 | - | 37,401 | 29,199 | - | 29,199 |
| Past due 0-30 days | 5,183 | 128 | 5,055 | 4,059 | 215 | 3,844 |
| Past due 30-90 days | 324 | 231 | 93 | 384 | 115 | 269 |
| Past due 91-180 days | 165 | 152 | 13 | 203 | 157 | 46 |
| Past due 181-270 days | 104 | 102 | 2 | 95 | 88 | 7 |
| Past due 271-365 days | 138 | 137 | 1 | 73 | 72 | 1 |
| Past due more than one year | 1,201 | 1,200 | 1 | 919 | 919 | - |
| **Total** | **44,516** | **1,950** | **42,566** | **34,932** | **1,566** | **33,366** |

The Group 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 believes that impairment trigger on insurance policies is 30 days overdue.

## 34 Fair Values and Risk Management (Continued)

### *(E) Liquidity risk*

Liquidity risk is the risk that the Group 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 Group. 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 Group 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 Group's liquidity positions are reviewed by the management on a monthly basis.

The maturity analysis of the Group's financial assets and liabilities at 31 December, 2022, as well as 31 December 2021 is as follows:

| | | | Consolidated | | |
|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **1-5 years** | **Total** |
| **31-Dec-22** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 15,390 | - | - | - | **15,390** |
| Bank deposits | - | 8,023 | 9,247 | 47,120 | **64,390** |
| Investment securities held to maturity | - | 147 | 500 | 4,306 | **4,953** |
| Derivative financial assets | 288 | 576 | 148 | - | **1,012** |
| Insurance receivables | 13,428 | 13,301 | 15,040 | 797 | **42,566** |
| Reinsurance receivables | - | 2,513 | 2,176 | - | **4,689** |
| Ceded share of insurance contract reserves (RBNS) | - | - | 4,359 | - | **4,359** |
| Other assets | 66 | 430 | 268 | 181 | **945** |
| **Total financial assets** | **29,172** | **24,990** | **31,738** | **52,404** | **138,304** |
| **Liabilities** | | | | | |
| Insurance contract reserves (RBNS) | 8,355 | 6,941 | 557 | 657 | **16,510** |
| Commission payables | 237 | 17,367 | 2,132 | - | **19,736** |
| Reinsurance payables | 416 | 2,079 | 2,079 | 5,405 | **9,979** |
| Lease liability | - | 342 | 388 | 609 | **1,339** |
| Financial liabilities | 321 | 1,605 | 1,927 | - | **3,853** |
| Current income tax liability | | 1,018 | - | - | **1,018** |
| Share-based payment liability | | - | - | 6,129 | **6,129** |
| Other liabilities | 194 | 968 | 968 | 194 | **2,324** |
| **Total financial liabilities** | **9,523** | **30,320** | **8,051** | **12,994** | **60,888** |
| **Net maturity gap at 31 December 2022** | **19,649** | **(5,330)** | **23,687** | **39,410** | **77,416** |

## 34 Fair Values and Risk Management (Continued)

| | Consolidated | | | | |
|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **1-5 years** | **Total** |
| **31-Dec-21** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 14,751 | - | - | - | **14,751** |
| Bank deposits | 3,315 | 14,355 | 11,655 | 17,579 | **46,904** |
| Investment securities held to maturity | 34 | 361 | 300 | 2,208 | **2,903** |
| Derivative financial assets | - | 430 | 40 | - | **470** |
| Insurance receivables | 10,374 | 9,676 | 12,799 | 517 | **33,366** |
| Reinsurance receivables | - | 2,946 | 941 | - | **3,887** |
| Ceded share of insurance contract reserves (RBNS) | - | - | 4,427 | - | **4,427** |
| Other assets | 150 | 272 | 177 | 143 | **742** |
| **Total financial assets** | **28,624** | **28,040** | **30,339** | **20,447** | **107,450** |
| **Liabilities** | | | | | |
| Insurance contract reserves (RBNS) | 6,121 | 5,259 | 296 | 178 | **11,854** |
| Commission payables | 187 | 13,985 | 1,462 | - | **15,634** |
| Reinsurance payables | 326 | 1,629 | 1,629 | 4,235 | **7,819** |
| Lease liability | - | 350 | 503 | 617 | **1,470** |
| Financial liabilities | 182 | 911 | 1,093 | - | **2,186** |
| Current income tax liability | - | 237 | - | - | **237** |
| Share-based payment liability | - | - | - | 4,133 | **4,133** |
| Other liabilities | 150 | 749 | 749 | 149 | **1,797** |
| **Total financial liabilities** | **6,966** | **23,120** | **5,732** | **9,312** | **45,130** |
| **Net maturity gap at 31 December 2021** | **21,658** | **4,920** | **24,607** | **11,135** | **62,320** |

## 34 Fair Values and Risk Management (Continued)

| | Separate | | | | |
|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **1-5 years** | **Total** |
| **31-Dec-22** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 15,330 | - | - | - | **15,330** |
| Bank deposits | - | 8,023 | 9,247 | 47,120 | **64,390** |
| Investment securities held to maturity | - | 147 | 500 | 4,306 | **4,953** |
| Derivative financial assets | 288 | 576 | 148 | - | **1,012** |
| Insurance receivables | 13,428 | 13,301 | 15,040 | 797 | **42,566** |
| Reinsurance receivables | - | 2,513 | 2,176 | - | **4,689** |
| Ceded share of insurance contract reserves (RBNS) | - | - | 4,359 | - | **4,359** |
| Other assets | 66 | 430 | 237 | 182 | **915** |
| **Total financial assets** | **29,112** | **24,990** | **31,707** | **52,405** | **138,214** |
| **Liabilities** | | | | | |
| Insurance contract reserves (RBNS) | 8,355 | 6,941 | 557 | 657 | **16,510** |
| Commission payables | 237 | 17,367 | 2,132 | - | **19,736** |
| Reinsurance payables | 416 | 2,079 | 2,079 | 5,405 | **9,979** |
| Lease liability | - | 326 | 385 | 609 | **1,320** |
| Financial liabilities | 321 | 1,605 | 1,925 | - | **3,851** |
| Current income tax liability | | 1,018 | - | - | **1,018** |
| Share-based payment liability | | - | - | 6,129 | **6,129** |
| Other liabilities | 194 | 968 | 968 | 194 | **2,324** |
| **Total financial liabilities** | **9,523** | **30,304** | **8,046** | **12,994** | **60,867** |
| **Net maturity gap at 31 December 2022** | **19,589** | **(5,314)** | **23,661** | **39,411** | **77,347** |

## 34 Fair Values and Risk Management (Continued)

| | Separate | | | | |
|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 to 12 months** | **1-5 years** | **Total** |
| **31-Dec-21** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 14,663 | - | - | - | **14,663** |
| Bank deposits | 3,315 | 14,355 | 11,655 | 17,579 | **46,904** |
| Investment securities held to maturity | 34 | 361 | 300 | 2,208 | **2,903** |
| Derivative financial assets | - | 430 | 40 | - | **470** |
| Insurance receivables | 10,374 | 9,676 | 12,799 | 517 | **33,366** |
| Reinsurance receivables | - | 2,946 | 941 | - | **3,887** |
| Ceded share of insurance contract reserves (RBNS) | - | - | 4,427 | - | **4,427** |
| Other assets | 145 | 248 | 148 | 143 | **684** |
| **Total financial assets** | **28,531** | **28,016** | **30,310** | **20,447** | **107,304** |
| **Liabilities** | | | | | |
| Insurance contract reserves (RBNS) | 6,121 | 5,259 | 296 | 178 | **11,854** |
| Commission payables | 187 | 13,985 | 1,462 | - | **15,634** |
| Reinsurance payables | 326 | 1,629 | 1,629 | 4,235 | **7,819** |
| Lease liability | - | 334 | 478 | 602 | **1,414** |
| Financial liabilities | 181 | 907 | 1,088 | - | **2,176** |
| Current income tax liability | - | 237 | - | - | **237** |
| Share-based payment liability | - | - | - | 4,133 | **4,133** |
| Other liabilities | 149 | 746 | 746 | 150 | **1,791** |
| **Total financial liabilities** | **6,964** | **23,097** | **5,699** | **9,298** | **45,058** |
| **Net maturity gap at 31 December 2021** | **21,567** | **4,919** | **24,611** | **11,149** | **62,246** |

## 34 Fair Values and Risk Management (Continued)

### *(F) Maturity profiles*

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

### *(G) 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 Group's exposure to market risk policies and procedures are in place to set and monitor asset allocation and portfolio limit structures.

### *(H) Currency risk*

The Group's assets and liabilities are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Group 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 Group aims to close currency positions and ensures that an open currency position remains within the limits at all times.

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

**Consolidated and separate**

| *In thousands of Georgian Lari* | **USD denominated 31 December 2022** | **EUR denominated 31 December 2022** | **GEL denominated 31 December 2022** | **USD denominated 31 December 2021** | **EUR denominated 31 December 2021** | **GEL denominated 31 December 2021** |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 336 | 381 | 14,673 | 1,038 | 356 | 13,357 |
| Insurance receivables | 17,646 | 1,161 | 23,759 | 14,709 | 1,064 | 17,593 |
| Reinsurance receivables | 4,714 | 187 | (212) | 2,244 | 1,545 | 98 |
| Investment securities held to maturity | 2,028 | - | 2,925 | 1,357 | - | 1,546 |
| Other receivables | 4 | 31 | 1,318 | 5 | 14 | 1,880 |
| Ceded share of insurance contract reserves | 638 | 490 | 9,505 | 702 | 286 | 7,886 |
| Insurance contract reserves | (1,930) | (1,041) | (65,886) | (1,844) | (591) | (50,526) |
| Reinsurance payables | (9,586) | (275) | (118) | (5,848) | (1,143) | (828) |
| Lease liabilities | (1,325) | - | (14) | (1,413) | - | (57) |
| Financial Other liabilities | (1,068) | (375) | (5,539) | (818) | (332) | (4,365) |
| **Net on-Balance Exposure** | **11,457** | **559** | **(19,589)** | **10,132** | **1,199** | **(13,416)** |
| Derivative instruments | (9,997) | (1,442) | 12,452 | (11,140) | - | 11,610 |
| **Net Exposure** | **1,460** | **(883)** | **(7,137)** | **(1,008)** | **1,199** | **(1,806)** |

## 34 Fair Values and Risk Management (Continued)

The following significant exchange rates have been applied:

| | Average Rate | Reporting date spot rate |
|---|---|---|
| *In Georgian Lari* | **2022** | **31 December 2022** |
| USD | 2.9156 | 2.7020 |
| EUR | 3.0792 | 2.8844 |

| | Average Rate | Reporting date spot rate |
|---|---|---|
| *In Georgian Lari* | **2021** | **31 December 2021** |
| USD | 3.2209 | 3.0976 |
| EUR | 3.8140 | 3.5040 |

### *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:

| | **Strengthening** | **Weakening** |
|---|---|---|
| *In thousands of Georgian Lari* | **Profit or (Loss) and Equity** | **Profit or (Loss) and Equity** |
| **31 December 2022** | | |
| USD (20% movement) | (248) | 248 |
| EUR (20% movement) | 150 | (150) |
| **31 December 2021** | | |
| USD (20% movement) | 171 | (171) |
| EUR (20% movement) | (204) | 204 |

### *(i) Interest rate risk*

Interest rate risk is the risk that fluctuations in market interest rates will affect adversely the financial position and the results of operations of the Group.

The Group has low exposure to floating rate interest bearing instruments. Financial assets that are exposed to interest rate risk are investment securities held to maturity. it comprises only 3.5% of total credit exposure, therefore, management believes that the Group does not have significant exposure to interest rate risk.

### *(ii) Financial instruments*

The following table provides an overview of the fair values as of 31 December 2022 and the amounts of fair value gains / losses during the reporting period separately for financial assets that meet the SPPI criterion and for all other financial assets:

## 34 Fair Values and Risk Management (Continued)

| | Consolidated | | | | | Separate | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assets that are not SPPI | | Assets that are solely payments of principal and interest (SPPI) | | | Assets that are not SPPI | | Assets that are solely payments of principal and interest (SPPI) | | |
| *In thousands of Georgian Lari* | Fair value | Fair value gain / (loss) for the year | Fair value | Fair value gain / (loss) for the year | Fair value of assets | Fair value | Fair value gain / (loss) for the year | Fair value | Fair value gain / (loss) for the year | Fair value of assets |
| Cash and cash equivalents | - | - | 15,390 | - | **15,390** | - | - | 15,330 | - | **15,330** |
| Bank deposits | - | - | 64,390 | - | **64,390** | - | - | 64,390 | - | **64,390** |
| Investment securities held to maturity | - | - | 4,953 | - | **4,953** | - | - | 4,953 | - | **4,953** |
| Derivative financial assets | 1,012 | 1,012 | - | - | **1,012** | 1,012 | 1,012 | - | - | **1,012** |
| Other assets | - | - | 945 | - | **945** | - | - | 915 | - | **915** |
| **Total financial assets as of 31 December, 2022** | **1,012** | **1,012** | **85,678** | **-** | **86,690** | **1,012** | **1,012** | **85,588** | **-** | **86,600** |
| Cash and cash equivalents | - | - | 14,751 | - | **14,751** | - | - | 14,663 | - | **14,663** |
| Bank deposits | - | - | 46,904 | - | **46,904** | - | - | 46,904 | - | **46,904** |
| Investment securities held to maturity | - | - | 2,903 | - | **2,903** | - | - | 2,903 | - | **2,903** |
| Derivative financial assets | 470 | 470 | - | - | **470** | 470 | 470 | - | - | **470** |
| Other assets | - | - | 741 | - | **741** | - | - | 684 | - | **684** |
| **Total financial assets as of 31 December, 2021** | **470** | **470** | **65,299** | **-** | **65,769** | **470** | **470** | **65,154** | **-** | **65,624** |

## 34 Fair Values and Risk Management (Continued)

| *In thousands of Georgian Lari* | Carrying value (IAS 39) of assets that are SPPI and analysed by credit rating | | | | | |
|---|---|---|---|---|---|---|
| **Consolidated** | **BB** | **BB-** | **B+** | **B-** | **Not rated** | **Total carrying value** |
| Cash and cash equivalents | - | 15,373 | 3 | - | 14 | **15,390** |
| Bank deposits | - | 46,984 | 17,406 | - | - | **64,390** |
| Investment securities held to maturity | - | 4,121 | 832 | - | - | **4,953** |
| Other assets | - | - | - | - | 945 | **945** |
| **Total SPPI financial assets as of 31 December, 2022** | **-** | **66,478** | **18,241** | **-** | **959** | **85,678** |
| Cash and cash equivalents | - | 14,733 | 5 | - | 13 | **14,751** |
| Bank deposits | - | 33,895 | 13,009 | - | - | **46,904** |
| Investment securities held to maturity | 503 | 2,093 | - | 307 | - | **2,903** |
| Other assets | - | - | - | - | 741 | **741** |
| **Total SPPI financial assets as of 31 December, 2021** | **503** | **50,721** | **13,014** | **307** | **754** | **65,299** |

## 34 Fair Values and Risk Management (Continued)

| *In thousands of Georgian Lari* | | Carrying value (IAS 39) of assets that are SPPI and analysed by credit rating | | | | |
|---|---|---|---|---|---|---|
| **Separate** | **BB** | **BB-** | **B+** | **B-** | **Not rated** | **Total carrying value** |
| Cash and cash equivalents | - | 15,314 | 3 | - | 13 | **15,330** |
| Bank deposits | - | 46,984 | 17,406 | - | - | **64,390** |
| Investment securities held to maturity | - | 4,121 | 832 | - | - | **4,953** |
| Other assets | - | - | - | | 915 | **915** |
| **Total SPPI financial assets as of 31 December, 2022** | **-** | **66,419** | **18,241** | **-** | **928** | **85,588** |
| | | | | - | | |
| Cash and cash equivalents | - | 14,645 | 5 | - | 13 | **14,663** |
| Bank deposits | - | 33,895 | 13,009 | - | - | **46,904** |
| Investment securities held to maturity | 503 | 2,093 | - | 307 | - | **2,903** |
| Other assets | - | - | - | | 684 | **684** |
| **Total SPPI financial assets as of 31 December, 2021** | **503** | **50,633** | **13,014** | **307** | **697** | **65,154** |

## 35 Contingencies

### (a) Legal proceedings

In the normal course of business, the Group 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 Group's financial position.

### (b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after 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 consolidated and separate financial statements, if the authorities were successful in enforcing their interpretations, could be significant. (Note 30)

## 36 Related Parties

### (a) Key management remuneration

Key management includes Directors (executive).

| | 2022 | | 2021 | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Expense** | **Accrued Liability** | **Expense** | **Accrued Liability** |
| **Short-term benefits** | | | | |
| Salaries and bonuses | 2,925 | 1,283 | 2,438 | 1,235 |
| **Share-based compensation** | | | | |
| Equity-settled share-based compensation | 1,996 | 6,129 | 1,518 | 4,133 |
| **Other benefits** | | | | |
| State pension and insurance | 51 | - | 20 | - |
| **Total key management compensation** | **4,972** | **7,412** | **3,976** | **5,368** |

## 36 Related Parties (Continued)

### (b) Transactions with other related parties

The outstanding balances and related expense and income as for the year ended 31 December 2022 and 2021 with related parties are as follows:

| **Consolidated** | | **2022** | | | | **2021** | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Parent** | **Entities Under Common Control*** | **Other** | **Percent of Total** | **Parent** | **Entities Under Common Control*** | **Other** | **Percent of Total** |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | - | 11,100 | - | 72% | - | 14,731 | - | 100% |
| Bank deposits | - | 26,595 | - | 41% | - | 17,557 | - | 37% |
| Derivative financial assets | - | 1,012 | - | 100% | - | 470 | - | 100% |
| Investment securities held to maturity | - | 1,200 | - | 24% | - | 1,308 | - | 45% |
| Insurance receivables | - | 3,920 | 326 | 10% | - | 3,585 | 339 | 12% |
| Other assets | - | 3 | - | 0% | - | 3 | - | 0% |
| **Total assets** | **-** | **43,830** | **326** | **28%** | **-** | **37,654** | **339** | **31%** |
| **Liabilities** | | | | | | | | |
| Insurance contract reserves | - | 10,343 | 431 | 16% | - | 8,672 | 480 | 17% |
| Commission payables | - | 16,892 | - | 86% | - | 13,390 | - | 86% |
| Lease liabilities | - | 69 | - | 5% | - | 143 | - | 10% |
| **Total liabilities** | **-** | **27,304** | **431** | **24%** | **-** | **22,205** | **480** | **26%** |
| | | - | | | | - | | |
| **Equity** | | | | | | | | |
| Dividends declared / paid | 10,026 | - | - | 100% | 7,003 | - | - | 100% |
| **Total equity** | **10,026** | **-** | **-** | **24%** | **7,003** | **-** | **-** | **21%** |

| **Consolidated** | | **2022** | | | | **2021** | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Parent** | **Entities Under Common Control*** | **Other** | **Percent of Total** | **Parent** | **Entities Under Common Control*** | **Other** | **Percent of Total** |
| **Income Statement** | | | | | | | | |
| Earned Premium | - | 50,520 | 1,164 | 38% | - | 44,471 | 1,316 | 45% |
| Interest Income | - | 3,504 | - | 48% | - | 2,345 | - | 41% |
| Claims incurred | - | (16,333) | (504) | 24% | - | (16,486) | (752) | 33% |
| Incurred but not reported claims | - | (303) | - | 152% | - | (3) | - | 4% |
| Acquisition Costs | - | (16,713) | - | 69% | - | (13,126) | - | 71% |
| Foreign exchange gain/losses | - | 1,941 | - | 153% | - | 401 | - | -501% |
| **Total** | **-** | **22,616** | **660** | | **-** | **17,602** | **564** | |

## 36 Related Parties (Continued)

| **Separate** | | | **2022** | | | | | **2021** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Parent** | **Subsidiaries** | **Entities Under Common Control*** | **Other** | **Percent of Total** | **Parent** | **Subsidiaries** | **Entities Under Common Control*** | **Other** | **Percent of Total** |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | - | - | 11,041 | - | 72% | - | - | 14,731 | - | 100% |
| Bank deposits | - | - | 26,595 | - | 41% | - | - | 17,557 | - | 37% |
| Investment in subsidiaries | - | 5,776 | - | - | 100% | - | 4,426 | - | - | 100% |
| Derivative financial assets | - | - | 1,012 | - | 100% | - | - | 470 | - | 100% |
| Investment securities held to maturity | - | - | 1,200 | - | 24% | - | - | 1,308 | - | 45% |
| Insurance receivables | - | - | 3,920 | 326 | 10% | - | 13 | 3,585 | 339 | 12% |
| Other assets | - | - | 3 | - | 0% | - | - | 3 | - | 0% |
| **Total assets** | **-** | **5,776** | **43,771** | **326** | **31%** | **-** | **4,439** | **37,654** | **339** | **31%** |
| **Liabilities** | | | | | | | | | | |
| Insurance contract reserves | - | - | 10,343 | 431 | 16% | - | - | 8,672 | 480 | 17% |
| Commission payables | - | - | 16,892 | - | 86% | - | - | 13,390 | - | 86% |
| Financial liabilities | - | - | - | - | 0% | - | 3 | - | - | 0% |
| Lease liabilities | - | - | 69 | - | 5% | - | - | 143 | - | 10% |
| **Total liabilities** | **-** | **-** | **27,304** | **431** | **24%** | **-** | **3** | **22,205** | **480** | **26%** |
| **Equity** | | | | | | | | | | |
| Dividends declared / paid | 10,026 | - | - | - | 100% | 7,003 | - | - | - | 100% |
| **Total equity** | **10,026** | **-** | **-** | **-** | **22%** | **7,003** | **-** | **-** | **-** | **19%** |

## 36 Related Parties (Continued)

| **Separate** | | | **2022** | | | | | **2021** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In thousands of Georgian Lari* | **Parent** | **Subsidiaries** | **Entities Under Common Control*** | **Other** | **Percent of Total** | **Parent** | **Subsidiaries** | **Entities Under Common Control*** | **Other** | **Percent of Total** |
| **Income Statement** | | | | | | | | | | |
| Earned Premium | - | 18 | 50,520 | 1,164 | 38% | - | 40 | 44,471 | 1,316 | 45% |
| Interest Income | - | - | 3,504 | - | 48% | - | - | 2,345 | - | 41% |
| Claims incurred | - | (17) | (16,333) | (504) | 24% | - | (13) | (16,486) | (752) | 33% |
| Incurred but not reported claims | - | - | (303) | - | 152% | - | - | (3) | - | 4% |
| Acquisition Costs | - | - | (16,713) | - | 69% | - | - | (13,126) | - | 71% |
| Foreign exchange gain/losses | - | - | 1,941 | - | 153% | - | - | 401 | - | -521% |
| **Total** | **-** | **1** | **22,616** | **660** | | **-** | **27** | **17,602** | **564** | |

Bank deposits placed with related parties earn annual interest rate of 12.40% to 13.68%.

Entities under common control include TBC Group PLC subsidiaries.

Other related parties mostly comprise of TBC Bank Group PLC Top Management and organisations related to TBC Bank Group PLC Top Management.

## 37 Significant Accounting Policies

### (a) Consolidated and separate financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in it. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control cease.

### (b) Investment in subsidiaries

A subsidiary is an entity over which the Company has a control. A control is when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries are accounted for at cost in the separate financial statements. Dividends received from a subsidiary or an associate are recognized in profit or loss when the right to receive the dividend is established.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company's investment in a subsidiary. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

### (c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group 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.

### (d) Insurance contracts

#### *(i)* Classification of contracts

## 37 Significant Accounting Policies (Continued)

Contracts under which the Group 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 Group 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 Group 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 Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The premiums are collectively

assessed for write off based on overdue days criteria or are individually evaluated, depending on the premium segment and client type.

***(iv) Insurance receivables***

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

## 37 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 Group'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 consolidated and separate financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

***(v) Reinsurance***

The Group 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 Group 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 Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

***(vi) Deferred commission income***

The Group 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 consolidated and separate statement of profit or loss and other comprehensive income.

***(vii) Deferred acquisition costs (DAC)***

Acquisition costs, representing commissions paid to insurance agents and brokers and other costs directly related to acquisition are deferred and amortized over the period in which the related written premiums are earned, to the extent that these costs are recoverable out of future premiums. Deferred acquisition costs are reduced by commissions due on impaired insurance policies related to future periods.

## 37 Significant Accounting Policies (Continued)

### (e) Financial instruments

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

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

The Group 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 Group becomes a party to the contractual provisions of the instrument.

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

#### *(ii) Derivative financial assets and financial liabilities*

Derivative financial instruments, including foreign exchange contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

#### *(iii) Non-derivative financial liabilities - measurement*

The Group 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 reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

#### *(v) 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.

#### *(vi) 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.

## 37 Significant Accounting Policies (Continued)

***(vii) Gains and losses on subsequent measurement***

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

**(f) 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.

**(g) Dividends**

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated and separate financial statements are authorised for issue are disclosed in the subsequent events note.

**(h) Purchases of subsidiaries from parties under common control**

Purchases of subsidiaries from parties under common control are accounted for in accordance with the acquisition method of accounting using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to other reserves within equity.

**(i) Property and equipment**

***(i)* Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within other income or other expense in profit or loss.

***(ii) Subsequent expenditure***

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

***(iii) Depreciation***

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

## 37 Significant Accounting Policies (Continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of furniture and equipment varies from 5 to 10 years; for leasehold improvements the useful life is the term of underlying lease or if not defined, not more than 7 years and useful life for motor vehicles is 10 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (j) Right-of-use assets

The Group leases only offices. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The estimated useful live of Right-of-use assets varies from 0.5 to 2 years.

### (k) Intangible assets

The Group's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Capitalised computer software is amortised on a straight-line basis over expected useful lives of 1 to 10 years.

### (l) Impairment

#### (i) 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 Group on terms that the Group would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

## 37 Significant Accounting Policies (Continued)

***Financial assets measured at amortised cost***

The Group 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 grouping together assets with similar risk characteristics.

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

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When the Group 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 Group'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 grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Group'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.

### (m) Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,

## 37 Significant Accounting Policies (Continued)

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of office leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary

to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### (n) 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.

#### *(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.

## 37 Significant Accounting Policies (Continued)

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 2024, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1st January 2024 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1st January 2024 and hence, no deferred income x assets and liabilities will arise, there on.

**(o) Share based payment liability**

In 2021 TBC Insurance JSC approved a new compensation scheme for the top management that replaced the 2019 top management compensation scheme. According to the scheme, each year, subject to performance and service conditions, the company grants shares of its parent entity (TBC Bank Group PLC) to the top management for service of the five years (2019 – 2023).

The award as well as respective personal income tax is accounted as cash settled share-based payment under IFRS 2. An expense is recognized in the income statement using graded vesting method over the vesting period which is until March 2024 for each year's award; and a liability is recorded as the other side of the entry. The liability is re-measured at each reporting date until settlement. As long as the amount of award is dependent on fulfilment of performance and service conditions, management revises estimated value of award based on forecasted achievement throughout 5 years and financial metrics in the fifth year and adjusts the liability accordingly.

Each accrual is made based on discounted value. The liability is amortized through accrual of interest expense (classified within staff costs) until the settlement date. Interest rate of 5-year government bonds are used.

## 38 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2022, but did not have a material impact on the Group:

***Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).***

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
- The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies

## 38 Adoption of New or Revised Standards and Interpretations (Continued)

- that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception,
- an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.
- IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

***Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021)****.* In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

## 39 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Group has not early adopted.

***IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2022, the effective date subsequently modified to 1 January 2023 by the Amendments to IFRS 17 as discussed below).*** In May 2017, the IASB issued IFRS 17, *Insurance Contracts*. IFRS 17 replaces IFRS 4 and sets out principles for the recognition, measurement, presentation and disclosure of insurance contracts that are in the scope of IFRS 17. In June 2020, the IASB issued Amendments to IFRS 17, introducing various changes to assist entities implementing the Standard, and moving an effective date to 1 January 2023.

## 39 New Accounting Pronouncements (Continued)

*Scope.* IFRS 17 applies to the following contracts: (a) insurance contracts issued by the Group, (b) reinsurance contracts held by the Group and (c) investment contracts with discretionary participation features issued by the Group. IFRS 17 generally applies to the whole set of rights and obligations created by an insurance contract. Cash flows generated by such rights and obligations should normally be incorporated in the measurement of assets and liabilities associated with an insurance contract. However, an insurance contract can also contain components which are excluded from the scope of IFRS 17 and should be accounted for under different standards, subject to specific criteria: (a) embedded derivatives, (b) investment components, and (c) promises to transfer to a policyholder distinct goods or services other than insurance contract services.

*Level of aggregation.* IFRS 17 requires to identify portfolios of insurance contracts. A portfolio of insurance contracts is defined as insurance contracts that are subject to similar risks and managed together. Portfolios should be further disaggregated into profitability-based groups of insurance contracts that are, on initial recognition: (a) onerous, if any, (b) profitable, with no significant possibility of subsequently becoming onerous, if any, and (c) remaining contracts, if any. IFRS 17 prohibits to include contracts issued more than one year apart in the same group, a requirement commonly referred to as *annual cohort requirement.*

*Contract boundary.* The contract boundary concept is used to determine which cash flows should be considered in the measurement of an insurance contract. Cash flows that are not within the boundary of an insurance contract relate to future insurance contracts. The Group generally determines the contract boundary with a reference to its ability to reprice the insurance contract as a whole.

*Expected future cash flows.* Included in the measurement of each group of contracts within the scope of IFRS 17 are all the future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability-weighted expected future cash flows. The Group estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the Group uses information about past events, current conditions, and forecasts of future conditions.

Where estimates of expenses-related cash flows are determined at the portfolio level or higher, they are allocated to groups of contracts on a systematic basis, such as activity-based costing method. The Group has determined that this method results in a systematic and rational allocation. Similar methods are consistently applied to allocate expenses of a similar nature. Expenses of an administrative policy maintenance nature are allocated to groups of contracts based on the gross earned premium of groups.

*Discount rates.* The estimates of future cash flows should be adjusted to reflect the time value of money and the financial risks related to future cash flows, such as currency and liquidity risk associated with those cash flows, to the extent that the financial risks have not been included in the estimates of cash flows. The discount rates should: (a) reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts, (b) be consistent with observable current market prices for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity, and (c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts. As the Group issues insurance contracts with 1 year or less contract boundary, discounting is ignored.

*Risk adjustment for non-financial risk.* The risk adjustment for non-financial risk is included in the expected cash flows to represent compensation required for bearing the non-financial risk arising from uncertainty in future cash flows. Under IFRS 17 requirements, the risk adjustment for non-financial risk includes: (a) the degree of diversification benefit that the entity includes when determining the compensation that it requires for bearing that risk, and (b) both favourable and unfavourable outcomes in a way that reflects the entity's degree of risk aversion.

*Contractual service margin.* The contractual service margin (CSM) is a component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit that the entity will recognize as it provides insurance contract services under the insurance contracts in the group. Pattern of CSM recognition would be thus determined based on the coverage units, reflecting the pattern under which the insurance contract service benefit is transferred to the policyholder of the insurance contracts.

## 39 New Accounting Pronouncements (Continued)

Insurance contract services are the services that the Group provides to a policyholder of an insurance contract and comprise of coverage for an insurance event. Considering the short-term nature of the Group's insurance contracts and the insurance coverage that is evenly distributed over time, the Group uses contract period as a coverage unit for each portfolio.

*Measurement approaches.* IFRS 17 allows to apply following measurement approaches to insurance contracts issued and reinsurance contracts held: (a) general model, (b) premium allocation approach and (c) variable fee approach.

*General model.* This approach is applied to all insurance contracts, unless they have direct participation features or the contract is eligible for, and the entity elects to apply, the premium allocation approach.

*Premium allocation approach.* This approach is an optional simplification of the measurement of the liability for remaining coverage, for insurance contracts with short-term coverage. A group of insurance contracts is eligible for the premium allocation approach if, at inception: (a) each contract in the group has a coverage period (that is, the period in which the entity provides insurance contract services) of one year or less; or (b) the measurement of the liability for remaining coverage for the group using the premium allocation approach is reasonably expected to produce a measurement which is not materially different from using the general model or the variable fee approach.

The Group uses Premium allocation approach (PAA) for its total portfolio. The difference between PAA and IFRS 4 accounting policy consists of calculation of risk adjustment under IFRS 17 and change in exchange rate effect on liability for remaining coverage.

*Variable fee approach.* This approach is applied to insurance contracts with direct participation features. Such contracts are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. This approach cannot be used for the measurement of reinsurance contracts issued or held. The Group does not use Variable fee approach for any of its contracts.

*Insurance finance income and expenses.* Insurance finance income or expenses reflect the changes in the carrying amount of the group of insurance contracts that relate to financial risks. They comprise the effect of the time value of money (that is, the accretion of interest on all of the fulfilment cash flows, the risk adjustment for non-financial risk and the contractual service margin) as well as the effect of financial risk and changes in financial risks. IFRS 17 allows, as an accounting policy, to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income. The Group's policy is to account total insurance finance income and espenses in the statement of profit or loss.

*Reinsurance contracts held.* IFRS 17 allows options in presenting income or expenses from reinsurance contracts held, other than insurance finance income or expenses. The Group elected to present a single net amount in net expenses from reinsurance contracts held.

*IFRS 17 Transition.* Adoption of IFRS 17 will significantly affect financial reporting processes and procedures of the Group, as applications of the core principles outlined above will require additional information to be gathered and processed, as well as additional significant judgements to be made by the management. To ensure smooth and timely adoption of IFRS 17, the Group launched a separate implementation project. The project team is composed of finance, accounting and actuary team members and reports directly to the Group CFO. The Board of Directors performs general oversight over the implementation project.

After the transition to IFRS 17 the Group will use following measurement approaches, depending on the type of contract:

| | **Product classification** | **Measurement model** |
|---|---|---|
| Motor Insurance | Insurance contracts | Premium allocation approach |
| Border MTPL | Insurance contracts | Premium allocation approach |
| Property Insurance | Insurance contracts | Premium allocation approach |
| Agro (Crop) Insurance | Insurance contracts | Premium allocation approach |
| TBC Bank Borrowers' Credit Life Insurance | Insurance contracts | Premium allocation approach |
| Health-related Insurance | Insurance contracts | Premium allocation approach |
| Liability and Other Insurance | Insurance contracts | Premium allocation approach |

## 39 New Accounting Pronouncements (Continued)

The Group will apply the full retrospective approach for all of its portfolios of insurance contracts.

***IFRS 9 Financial Instruments.*** Standard sets out requirements for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group previously applied a temporary exemption from IFRS 9, stipulated by IFRS 4. Adoption of IFRS 17 will also require the Group to apply IFRS 9 from 1 January 2023. The Group intends to recognize any difference between the previous carrying amount of financial instruments and the carrying amount after the initial application of IFRS 9 in the opening retained earnings (or other component of equity, as appropriate).

Classification - Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

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

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

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are SPPI.

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

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are SPPI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Business model assessment

The Group assesses the objective of the business model in which a financial asset is held for each portfolio of financial assets because this best reflects the way that the business is managed, and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of assets;

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated (e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

– the frequency, volume, and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

## 39 New Accounting Pronouncements (Continued)

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time – e.g. if there are repayments of principal.

Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

– contingent events that would change the amount or timing of cash flows;

– prepayment and extension features;

– terms that limit the Group’s claim to cash flows from specified assets; and

– features that modify consideration for the time value of money (e.g. periodic reset of interest rates).

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. In addition, for a financial asset acquired at a premium or discount to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant on initial recognition.

Subsequent measurement of financial assets and gains and losses

Financial assets at FVTPL - Measured at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss.

Debt investments at FVOCI - Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI and accumulated in the fair value reserve. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - Measured at fair value. Dividends are recognised as income in profit or loss when the Group’s right to receive payment is established, unless they clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Financial assets at amortised cost - Measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Impairment

The Group recognises loss allowances for ECL on financial assets measured at amortised cost;

The Group measures loss allowances for the financial assets that are determined to have low credit risk at the reporting date at an amount equal to 12-months ECL. For other financial assets, the amount recognized is lifetime ECL.

## 39 New Accounting Pronouncements (Continued)

Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Financial instruments for which lifetime ECL are recognised because of a significant increase in credit risk since initial recognition but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

In all cases, the maximum period considered when estimating ECL is the maximum contractual

period over which the Group is exposed to credit risk.

<u>Measurement of ECL</u>

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

<u>Credit-impaired financial assets</u>

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

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

– significant financial difficulty of the debtor;

– a breach of contract such as a default or past-due event;

– the restructuring of an amount due to the Group on terms that the Group would not otherwise consider;

– the debtor entering bankruptcy or other financial reorganisation becoming probable; or

– the disappearance of an active market for a security because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

<u>Presentation of loss allowances in the statement of financial position</u>

Loss allowances for ECL are presented as follows:

– financial assets measured at amortised cost: the loss allowance is deducted from the gross carrying amount of the assets; and

– debt investments measured at FVOCI: the loss allowance does not reduce the carrying amount of the financial assets (which are measured at fair value) but gives rise to an equal and opposite gain in OCI.

<u>Write-off</u>

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

## 39 New Accounting Pronouncements (Continued)

Although the Group expects no significant recovery from amounts written off, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Derecognition and contract modification of financial assets

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

On derecognition of a financial asset, the difference between the carrying amount at the date of derecognition and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. For debt investments at FVOCI the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. The cumulative gain or loss on equity investments designated as at FVOCI is not reclassified to profit or loss.

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If cash flows are modified when the debtor is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual cash flows rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place.

If a financial asset measured at amortised cost or FVOCI is modified but not substantially, then the financial asset is not derecognised. The Group recalculates the gross carrying amount of the financial asset by discounting the modified contractual cash flows at the original effective interest rate and recognises the resulting adjustment to the gross carrying amount as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses; in other cases, it is presented as interest revenue. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Estimated impact of the initial application of IFRS 17 and IFRS 9

As a part of the implementation project, the Group finalised the restated balance sheet as of 1 January 2022, which is an IFRS 17 and IFRS 9 transition date.

| | Consolidated | | Separate | |
|---|---|---|---|---|
| *In thousands of Georgian Lari* | **1-Jan-22** | **1 January 2022, as restated following IFRS 17 and IFRS 9 adoption** | **1-Jan-22** | **1 January 2022, as restated following IFRS 17 and IFRS 9 adoption** |
| Cash and cash equivalents | 14,751 | 14,751 | 14,663 | 14,663 |
| Bank deposits | 46,904 | 46,726 | 46,904 | 46,726 |
| Investment securities held to maturity | 2,903 | 2,891 | 2,903 | 2,891 |
| Derivative financial assets | 470 | 470 | 470 | 470 |
| Investment in subsidiaries | - | - | 4,426 | 4,426 |
| Insurance receivables | 33,366 | - | 33,366 | - |
| Reinsurance receivables | 3,887 | 3,468 | 3,887 | 3,468 |
| Ceded share of insurance contract eserves | 8,874 | - | 8,874 | - |
| Deferred acquisition costs | 1,474 | - | 1,474 | - |
| Insurance contract assets | - | 304 | - | 304 |
| Reinsurance contract assets | - | 6,383 | - | 6,383 |
| Deferred income tax asset | 52 | 52 | 52 | 52 |
| Other assets | 1,899 | 1,899 | 1,835 | 1,835 |
| Right-of-use assets | 1,268 | 1,268 | 1,203 | 1,203 |
| Property and equipment | 1,471 | 1,471 | 1,423 | 1,423 |
| Intangible assets | 4,268 | 4,268 | 3,073 | 3,073 |
| **TOTAL ASSETS** | **121,587** | **83,951** | **124,553** | **86,917** |
| Share capital | 7,482 | 7,482 | 7,482 | 7,482 |
| Other reserves | 1,300 | 1,297 | 220 | 217 |
| Retained earnings, including: | 25,036 | 25,036 | 29,154 | 29,154 |
| Profit for the year | 14,229 | 14,229 | 15,248 | 15,248 |
| **TOTAL EQUITY** | **33,818** | **33,815** | **36,856** | **36,853** |
| Insurance contract reserves | 52,961 | - | 52,961 | - |
| Commission payables | 15,634 | - | 15,634 | - |
| Reinsurance payables | 7,819 | - | 7,819 | - |
| Insurance contract liabilities | - | 35,242 | - | 35,242 |
| Reinsurance contract liabilities | - | 3,593 | - | 3,593 |
| Lease liabilities | 1,470 | 1,470 | 1,414 | 1,414 |
| Financial liabilities | 2,186 | 2,186 | 2,176 | 2,176 |
| Current income tax liability | 237 | 237 | 237 | 237 |
| Share-based payment liabilities | 4,133 | 4,133 | 4,133 | 4,133 |
| Other liabilities | 3,329 | 3,275 | 3,323 | 3,269 |
| **TOTAL LIABILITIES** | **87,769** | **50,136** | **87,697** | **50,064** |
| **TOTAL LIABILITIES & EQUITY** | **121,587** | **83,951** | **124,553** | **86,917** |

For each group of contracts, cash flows related to the future service are shown as Liability for Remaining Coverage (LRC) or Asset for Remaining Coverage (ARC), depending on the sign of the net cash flow. Insurance receivables, Deferred acquisition costs, Unearned premium reserve and Commission payables are combined to form LRC / ARC. Similarly, Reinsurance Share in UPR, Commission receivable from

## 39 New Accounting Pronouncements (Continued)

reinsurance, Reinsurance Payables and Reinsurance commission reserve together form ARC / LRC depending on the sign of the net cash flows.

Liability for Incurred Claims (LIC) represents Company's obligation to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not yet been reported. Reported But Not Settled (RBNS) and Incurred But Not Reported (IBNR) claims reserves are combined to form LIC. Asset for Incurred Claims (AIC) shows reinsurance share in LIC and is calculated in a similar manner.

Aforementioned elements are presented in a following way on the face of the statement of financial position:

- ARC – Insurance contract assets,
- AIC + Reinsurance ARC – Reinsurance contract assets,
- LRC + LIC – Insurance contract liabilities,
- Reinsurance LRC – Reinsurance contract liabilities

On the current stage of the implementation project, the Group expects the following effects of transition to IFRS 17 and IFRS 9 on the amounts reported for:

- Insurance contract liabilities under IFRS 17 are expected to decrease by approximately GEL 570 thousands compared to amounts reported as of 31 December 2022. Causes of impact consists of introduction of risk adjustment and accounting insurance contract liabilities as monetary items.

- Reinsurance assets under IFRS 17 are expected to decrease by approximately GEL 107 thousands compared to amounts reported as of 31 December 2022. Causes of impact consists of introduction of risk adjustment and accounting reinsurance assets as monetary items.

- Based on the latest estimate, transition from IAS 39 incurred loss model to IFRS 9 expected loss model is expected to have effect of GEL 457 thousand on the total equity of the Group as of 31 December 2022.

- As a result of the offsetting effect of initial application of IFRS 17 and IFRS 9, the Group expects combined impact on total equity to be immaterial as of 31 December 2022.

## 39 New Accounting Pronouncements (Continued)

***Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October2022, ultimately effective for annual periods beginning on or after 1 January 2024).*** These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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 Group considers the impact of the amendments on its consolidated financial statements immaterial.

***Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).*** IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

***Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).*** The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

***Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).*** The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time.

Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences The Group is currently assessing the impact of the amendments on its consolidated financial statements.

***Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).*** The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

## 39 New Accounting Pronouncements (Continued)

***Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).*** These 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. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. 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.

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

## 40 Subsequent Events

On 13th March of 2023 the Company paid GEL 5,013 thousand of dividend to its shareholder.