

Limited Liability Company  
International Insurance Company Kamara

Financial Statements  
As of 31 December, 2014  
and  
Independent Auditor's Report



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## **Definition of Management's Responsibilities**

International Insurance Company Kamara Ltd

Statement of Management's Responsibilities for the preparation and approval of the prepared financial statements as of December 31, 2014

The following statement should be considered in conjunction with the independent auditors responsibilities stated in the independent auditors' report set out on pages 3 and 5 for the purpose of distinguishing the responsibilities of management and those of independent auditors in relation to the financial statements of International Insurance Company Kamara Ltd ("Organization").

Management is responsible for the preparation of the financial statements that fairly reflects the financial position of the organization as of December 31, 2014, the results of its operations, cash flows and changes in equity for the year ended at the same date, in accordance with International Financial Reporting Standards (IFRS).

In preparation of the financial statements the management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making reasonable and prudent decisions related to the judgments and estimates;
- Preparing the financial statements on the basis of operating enterprise, unless when it is not presumed that the organization will continue its activity in the foreseeable future.

The management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the organization;
- Maintaining such accounting records, which enable the organization to ensure at any time presentation of the financial position with reasonable accuracy and compliance of the financial statements with IFRS requirements;
- Maintaining statutory accounting records in compliance with the Georgian legislation and accounting standards;
- Taking steps to safeguard the safety of assets of the organization; and
- Detecting and preventing fraud and other irregularities.

The existing financial statements as of December 31, 2014 were signed for issue on May 13, 2015.

On behalf of the Management:

Signed, Sealed (Kamara Ltd, Georgia, 404990435)

Deputy Director

Eka Tsenteradze

*May 13, 2015*

*Tbilisi, Georgia*

Signed

Accountant

Levan Eliauri

*May 13, 2015*

*Tbilisi, Georgia*

### **Independent Auditors' Report**

To the Management of the Limited Liability Company International Insurance Company Kamara:

#### **Report on the financial statements**

We have audited the attached financial statements of International Insurance Company Kamara Ltd, which comprise the balance sheet as of December 31, 2014, and also the sheets of statements of profit and loss, cash flows and changes in equity for the year ended at the above mentioned date and a summary of primary principles of accounting policies and other explanatory notes.

## **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control system that is necessary for the preparation and presentation of such financial statements that are free from significant misstatement, whether due to error or fraud; and also selecting and applying appropriate accounting policies; and making accounting estimates that are corresponding and reasonable in the circumstances.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted the audit in accordance with International Standards on Auditing. These standards require our work to comply with ethical norms and plan and perform the audit in such a way to obtain reasonable assurance whether the financial statements are free from significant misstatement.

An audit involves performing of certain procedures to obtain an audit evidence about the amounts and definitions represented in the financial statements. The procedures selected depend on the auditor's professional judgment, which includes the assessment of the risk of significant misstatement in the financial statements, whether due to fraud or error. For elaboration of procedures corresponding to the existing circumstances, but not to make conclusion about effectiveness of internal control of the organization, the auditor during the risk assessment considers internal control systems, which are necessary for preparation and fair presentation of the financial statements.

We believe that the evidences, which we have obtained during audit are sufficient and appropriate to provide a basis for our audit opinion.

## **Conclusion**

From our point of view the presented financial statements accurately and fairly reflect the International Insurance Company - Kamara Ltd financial position as of December 31, 2014, the results of its activity and cash flows for the year ended at the above mentioned date in accordance with the International Financial Reporting Standards.

Financial Management Group

May 13, 2015

*Financial Management Group*

Tbilisi, Georgia

Sealed (Financial Management Group Ltd, Georgia, 205279660, FMG)

	Note	31.12.2013	31.12.2014
<b>Assets</b>			
Cash and cash equivalents	5	1 000 531	1 132 685
Insurance claims		-	11 288
Deferred commission expense		-	731
Other assets	6	1 441 296	1 076 022
<b>Total current assets</b>		<b>2 441 827</b>	<b>2 220 725</b>
Fixed assets	7	2 472	201 334
Non-material assets	8	936	792
Deferred tax asset	9	-	68 823
<b>Total long-term assets</b>		<b>3 408</b>	<b>270 949</b>
<b>Total assets</b>		<b>2 445 235</b>	<b>2 491 674</b>
<b>Liabilities</b>			
Insurance reserves	10	-	318 336
Other insurance liabilities		-	9 163
Other liabilities	11	2 233	180 898
<b>Total short-term liabilities</b>		<b>2 233</b>	<b>508 397</b>
<b>Total liabilities</b>		<b>2 233</b>	<b>508 397</b>
<b>Capital</b>			
Authorized capital		2 500 000	2 500 000
Retained earnings		(56 998)	(516 723)
<b>Total capital</b>		<b>2 443 002</b>	<b>1 983 277</b>
<b>Total liabilities and capital</b>		<b>2 445 235</b>	<b>2 491 674</b>

/Signed/ Sealed (Kamara Ltd, Georgia, 404990435)

Deputy director  
Eka Centeradze

May 13, 2015  
Tbilisi, Georgia

/Signed/

Accountant  
Levan Eliauri

May 13, 2015  
Tbilisi, Georgia

	Note	12 months, 2013	12 months, 2014
<b>Incomes</b>			
Earned premium, gross		-	80 653
Minus: reinsurance share in earned premium		-	446
<b>Earned premium, net</b>		-	<b>80 207</b>
Change in reserve of unearned premium, net		-	2 923
<b>Unearned premium, net</b>		-	<b>77 284</b>
<b>Subrogation recoveries and salvaged property income, net</b>			- 42 500
Investment income		4 315	17 023
<b>Total income</b>		<b>4 315</b>	<b>136 807</b>
<b>Expenses</b>			
Compensable claims		-	104 002
Changes in claims reserve		-	315 413
Commission expense		-	19 046
<b>Insurance claims, net</b>		-	<b>438 462</b>
Salary expense		21 396	122 471
Administrative expense	12	39 888	89 748
Tax expenses		12	692
Depreciation expense		109	11 961
Other non-operating incomes/(expenses)		(91)	2 021
<b>Total expenses</b>		<b>61 314</b>	<b>665 355</b>
<b>Profit (loss) before taxation</b>		<b>(56 998)</b>	<b>(528 548)</b>
Profit tax		-	(68 823)
<b>Net profit (loss)</b>		<b>(56 998)</b>	<b>(459 724)</b>

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May 13, 2015  
Tbilisi, Georgia

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May 13, 2015  
Tbilisi, Georgia

	<b>31.12.2013</b>	<b>31.12.2014</b>
<b><i>Cash flows from operating activities:</i></b>		
Insurance premium inflow	-	64 568
Subrogation recoveries inflow	-	40 000
Other operating incomes inflow	80	5 719
Outflow by reinsurance premiums	-	(446)
Outflow by reinsurance claims	-	(104 002)
Outflow by agent commission	-	(7 797)
Outflow by salary and other payments	(17 116)	(98 634)
Outflow for supplier and for service providers	(2 677)	-
Outflow by taxes	(4 279)	(32 128)
Outflow by administrative expenses	(31 345)	(109 573)
<b>Net cash flows from operating activities</b>	<b>(55 338)</b>	<b>(242 293)</b>
<b><i>Cash flows from investment activities:</i></b>		
Inflows by the percents charge from the deposits	3 822	16 819
Outflow for fixed assets purchase	-	(35 692)
<b>Net cash flows from investment activities</b>	<b>3 822</b>	<b>(18 873)</b>
<b><i>Cash flows from financial activities:</i></b>		
Inflow by sale of own share	1 052 039	391 022
<b>Net cash flows from financial activities</b>	<b>1 052 039</b>	<b>391 022</b>

	31.12.2013	31.12.2014
<b>Cash and their equivalents at the beginning of the period, including:</b>		
Cash and their equivalents on the current accounts		531
Cash and their equivalents on the placed deposits		1 000 000
Profit (loss) from the difference between the rates on the cash and cash equivalents		2 299
	7	
<b>Total cash and their equivalents at the beginning of the period</b>	<b>7</b>	<b>1 002 830</b>
Cash and equivalents net changes	<b>1 000 524</b>	<b>129 855</b>
<b>Cash and their equivalents at the end of the period</b>	<b>1 000 531</b>	<b>1 132 685</b>

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*May 13, 2015*  
*Tbilisi, Georgia*

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Levan Eliauri

*May 13, 2015*  
*Tbilisi, Georgia*

	Authorized capital	Retained earnings/loss	Total
<b>Balance as of December 31, 2012</b>	-	-	-
Net profit of the period	(56 998)	-	(56 998)
Investment in the authorized capital	2 500 000	-	2 500 000
<b>Balance as of December 31, 2013</b>	<b>2 443 002</b>	-	<b>2 443 002</b>
Net profit of the period	-	(459 724)	(459 724)
<b>Balance as of December 31, 2014</b>	<b>2 443 002</b>	<b>(459 724)</b>	<b>1 983 277</b>

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*May 13, 2015*  
*Tbilisi, Georgia*

## **Financial reporting explanatory notes**

### **1. Principal activity**

International Insurance Company Kamara Ltd (hereinafter - "Organization") was founded on May 13, 2013, regulatory body is LEPL National Agency of Public Registry, legal address: Georgia, Tbilisi, Vake-Saburtalo district, Lvov St., 84a, founders of the Organization are Husein Iaman (personal number 48838112892) - 37%, Chetin Aidin (personal number 20692382642) - 32%, Erol Kabaoghlu (personal number - 40039444840) - 5%, Mehmed Akif Afshar (personal number - 66124058372) - 26%.

The Organization carries out insurance activity. The Organization operates in Georgia. Therefore economic factors and financial markets acting in Georgia have effect on the Organization, which display characteristics of an emerging market. The license was given to the Organization on October 11, 2013, license certificate #NL013, issued by LEPL Insurance State Supervision Service of Georgia.

Legal, tax and regulatory structures continue development, though they are interpreted differently and often undergo changes, that creates certain challenges for organizations operating in Georgia along with other legislative difficulties. This financial reporting reflects management appraisals on Georgian business environment influence on the activity and financial status of the company. Future business environment can be different from the management appraisals.

### **2. Presentation grounds accounting grounds**

Attached financial reporting of the Organization is prepared in accordance with International Financial Reporting Standards approved by International Accounting Standards Board (IASB) and interpretations published by International Financial Reporting Interpretations Committee (IFRIC).

The mentioned financial reporting is presented in Georgian lari, if not noted differently.

*Accounting currency*

Accounting currency of the presented financial reporting is Georgian lari.

### **3. Main policy of accounting**

#### *3.1 Recognition and valuation of financial instruments*

Recognition of financial assets and liabilities is carried out as at the date of agreement. Acquisitions of financial instruments of regular nature, which further will be evaluated between the days of sale and settlement at fair value, are accounted for similar to acquired instruments.

The initial recognition of financial assets and liabilities is carried out fair value plus, if financial asset or liability is not fairly reflected by transaction of profit-loss, those costs, which are directly belong to agreement related to financial asset and liability. Revaluation policy of mentioned assets and liabilities is described in the below mentioned principles of accounting.

#### *3.2 Money and its equivalents*

Money and its equivalents include balances on current bank accounts.

#### *3.3 Classification of contracts*

Insurance contracts are contracts under which the organization accepts insurance risk from another party ("the insured") by agreeing to compensate the insured or other beneficiary in a specified uncertain future event ("the insured event"), which adversely affect the insured or other beneficiary. Insurance risk is other than financial risk. Financial risk is related to possible future change in interest rate, security price and commodity price, foreign exchange rates, indexes of prices and rates, credit rating or indexes or other variables, provided that non-financial variable is not specified for the party of the contract. Insurance contracts may also carry some financial risk. Insurance risk is classified as significant if an insured event could cause the company to compensate significant claims. Once an insurance contract is classified as an insurance contract, it remains classified as an insurance contract until all rights and obligations are extinguished or expired. Contracts under which insignificant insurance risks are transferred to the organization are classified as financial instruments.

Financial guarantee contracts are accepted as insurance contracts.

### ***3.4 Recognition and measurement of contracts***

#### **Insurance contracts**

##### *Insurance Premiums*

Gross premiums attracted include premiums entered into during the year, whether in whole or in part corresponding to the subsequent accounting period. Premiums are disclosed including commissions payable to intermediaries. The earned portion of premiums is recognized as income. Premiums are earned from the effective date of policy during the insurance period daily (using the pro-rata method). Reinsurance premium is recognized as an expense also daily (using the pro-rata method). The portion of reinsurance premium, which is not recognized as an expense is treated as a reinsurance asset.

##### *Policy cancellations*

Policies are cancelled if there is objective assumption that the insured is not or cannot pay policy premium. Therefore, cancellations affect those policies where in accordance with terms premium is paid by installments.

##### *Unearned premium reserves*

Unearned premium reserve includes the portion of gross attracted premium which is expected to be earned during the following or subsequent years. It is computed separately for each insurance contract daily (using the pro-rata method).

### *Insurance claims*

Net claims incurred include claims compensated during the reporting year together with the movement of outstanding claims reserve. Outstanding claims include calculations of reserves of expenses related to regulation of claims incurred but to be paid by the organization for the ultimate day of the reporting period, reported as well as unreported.

Claims outstanding are determined by individual review of claims and calculations of reserves of claims incurred but not reported, in which internal and external foreseeable events are envisaged, such as legal changes and past experiences and trends. Reserves of claims outstanding are not discounted.

Sums of planned reinsurance and subrogation recoveries to be received are recognized as asset. Reinsurance and subrogation recoveries are determined in the same way as outstanding claims.

Adjustments of the amounts of claim reserves established in previous years are reflected in the financial statement for the period when the adjustment is made and in case of materiality are determined separately. The methods used and the estimates made, are reviewed regularly.

### *Reinsurance*

The organization carries out reinsurance for the normal course of business, and risk limits kept to itself are different according to insurance products.

Obligation of reinsurer to the organization do not relieve the organization from its obligations to its insured.

Share of reinsurer's premiums and compensations are presented profit-loss and financial state statements (gross).

#### *Deferred acquisition costs (DAC)*

Those direct and indirect costs incurred during the period, which are related to the attraction or renovation of insurance contracts, will be postponed to the future periods, only in case if it is expected that these costs will be compensated in the future from the received insurance premiums. All other acquisition costs are recognized as expenses in the periods, when they were incurred.

After the initial recognition, the postponed acquisition costs of general insurance and medical products are depreciated in the period, when the related incomes are earned.

#### *Liability adequacy test*

At each balance date a liability conformity test is performed to ensure adequacy of unearned premiums minus deferred acquisition costs assets. During the test predictive indicators of cash flows, claim management, policy administration and income from investment activity carried out to secure them are used. In case if deficit is revealed the corresponding deferred acquisition costs and corresponding non-material asset will be written off, if necessary the additional reserve is created. This difference is recognized in the annual profit or loss.

#### *Insurance claims*

Claims arisen from the insurance contracts are classified as claims and their depreciation is reviewed in accordance with test of depreciation of claims.

The insurance claims are recognized at the issue of policy and is accounted for amortized value. The depreciation of balance value of insurance claims is reviewed as on the level of individual

balances so totally on the balances which were not included in the individual review. The depreciation review is carried out in case if the events or circumstances indicate that the

organization may not fully extract pertaining sums from the claims. The depreciation loss is recognized in profit-loss report.

### ***3.5 Fixed assets and depreciation***

The fixed assets are given at the historical value minus depreciation. The historical value includes sums, which are spent on acquisition of these assets. The subsequent expenses are reflected in the corresponding item of the asset or they are accounted for (recognized) as separate asset in case if it clear that in the future the organization will receive an economic profit thanks to this asset and reliable (real) assessment of this asset is possible. The value of repair (maintenance) and storage of assets is reflected in the income statement in accordance with the periods of their origin.

Depreciation of fixed assets is calculated using the straight-line method in accordance with the rules determined by the Tax Code of Georgia and not always corresponds with international accounting standards, because this method does not always suitably determine the future profit related to these assets.

Depreciation of fixed assets is deducted from the balance value of assets and is used for write-off of the assets before their exploitation expiration date. Depreciation and amortization calculation is performed using the straight-line method using the following annual rates:

Office and computer Equipment	20-40%
Furniture and other inventory	20-40%
Non-material assets	15-25%

The organization does not review the depreciation methods and coefficients at the end of each financial year to reflect if there is any sign of that any fixed asset of the organization, from which it expects the profit, is depreciated.

When the property write-off or change in other way is carried out, the value and depreciation are transferred from the financial report and all types of profit and loss related to it are reflected in the income statement.

### ***3.6 Reserves***

Reserves (deductions) are recognized when the company has a current liability (legal or structural) arisen from the past events, at the same time it is expected that the company will have to give out resources containing economic profit to cover the liabilities and if it is possible to evaluate the liability sum enough reliable.

### ***3.7 Capital***

The capital includes the owned capital and undistributed profits.

The dividend is recognized as liability and is deducted from the capital only in case if its giving out was declared at the date of preparation of balance.

### **3.8 Taxes**

For the audited period profit tax is equal to 15% in accordance with the Georgian legislation.

Calculation of profit tax is carried out for the given periods based on the data of financial reporting and based on the calculations of management taking into account the Georgian tax legislation. In accordance with the Georgian legislation deferment of tax loss is performed during 5 years.

Expense for the profit tax represents a sum of expenses for current and deferred taxes.

Expense for the current tax is calculated from the taxable profit of the year. The taxable profit differs from the net profit, which is reflected in the profit-loss report, because it does not include the part of incomes and expenses which is subject to taxation or deduction in previous years as well as those expenses, which are not taxable or deductible at all. Current tax expense of organization is calculated using the tax rate, which was effective for the reporting period.

Deferred tax is tax to be paid or deducted, which arises in financial report based on taxation basis received from the difference between residual value of assets and liabilities reflected in the financial reporting and in the balance sheet is reflected using the liability method. Deferred tax liabilities are usually subject to recognition for all temporally differences, and deferred tax assets are subject to recognition so far as there is well-founded expectation of existence of taxable profit, in relation of which the existing temporally difference will be used. Assets and liabilities are not recognized if the temporally difference is caused by initial recognition of assets and liabilities in those operations which does not affect the tax profit as well as the accounting profit.

### ***3.9 Interest income and expense; commission income***

Interest income and expense are recognized as profit or loss as the charge takes place in accordance with asset/liability effective interest or variable rate. Interest income and expense include amortization or any other difference between the balance amount of the corresponding instrument and amount calculated considering term based on effective interest rate, loan organization, service and other expenses, which are inseparable from the whole profitability of loan, is postponed with direct expenses and is depreciated on interest income in accordance with financial instrument duration using effective interest rate method.

Other commission income is recognized when the corresponding service is rendered.

### ***3.10 Foreign currency operations***

Foreign currency operations are accounted for in Georgian lari in accordance with exchange rates established on the day of operation. Monetary assets and liabilities denominated in foreign currency are recalculated in lari on the day of preparation of financial reporting in accordance with the existing exchange rates. Financial result received from difference in exchange is reflected in profit-loss reporting of period when it was arisen.

#### *Currency exchange rate*

Below exchange rates existing at the end of the year are given, which were used by the organization during preparation of financial reporting:

	December 31, 2013	December 31, 2014
Lari/1 USA dollar	1,7363	1,8636
Lari/1 euro	2,3891	2.2656

### ***3.11 Deduction of financial assets and liabilities***

Financial assets and financial liabilities are deducted and reflected in the balance at net amount, in case if the organization has a legal right to deduct amounts recognized in the balance and intends to offset asset at net value or to sale simultaneously the asset and to cover the liability. The organization does not deduct transferred financial asset with liabilities.

### ***3.12 Conditional assets and liabilities***

The conditional liabilities are not reflected in the balance, but are presented before existence of possibility of any outflow of funds during settlement. Conditional asset is not reflected in the balance, but is presented in case if the economic profit earning is expected.

## **4. Insurance risk management**

### ***4.1 Risk management objectives and policies for mitigating insurance risks***

The primary insurance activity carried out by the organization is related to the risk of loss which may arise from natural persons or organizations. Such risks are related to property, execution of obligations, accident, health, cargo or other dangers, which may arise from the insured event. Thus the organization faces uncertainty due to time and gravity of losses proceeding from insurance contracts.

The principal risk is such frequency and gravity of losses, which exceeds the expected. The insured events are by their nature random and the size may be different from those determined by the statistical technical means.

Risk proceeding from non-life insurance policies, as a rule, cover twelve months period. For the standard insurance contracts the most important risk proceeds from changes in the corresponding legislative environment, changes in behavior of insured, natural cataclysms and terroristic

activity. From the health insurance contracts the most important risk proceeds from epidemics, natural cataclysms and growth of healthcare expenses.

Proceeding from the insurance activity the organization also faces the market risk. The organization manages the risks using the established statistical means, reinsurance of risks, underwriting limits, procedure of transactions authorization, price guideline and monitoring of the revealed issues.

#### ***4.2 Underwriting strategy***

The organization's underwriting strategy lies in diversification of portfolio in such a way that it always contains different classes non-correlated risks and at the same time all classes of risks must be distributed among big quantity of policies.

The management believes that this approach mitigates negative results. Underwriting strategy is defined in the business plan, which determines that business classes and subclasses must be ordered. The strategy is executed by underwriting guidelines, which determine underwriting detailed rules for each product. The guidelines contain insurance conception and procedures, definitions, of accepted risks, terms and conditions, rights and obligations, requirements of documentation, agreement templates and samples of policies, definitions about tariffs and other factors, which will affect the corresponding tariffs. Calculation of tariffs is based on the probability and variability.

Surveillance of execution of guidelines' requirements is carried out by the management of the organization on an on-going basis.

Different policies and processes such as all new and current claim evaluation, regular detailed consideration of the claim management procedures and investigation of the possible fraudulent claims are carried out to mitigate the claims. Where possible the organization carries out investigations of reasons and trends of claims aimed at mitigating unexpected possible negative influence on the organization in the future.

The organization also determines maximal possible risk by determination of maximal possible amount of risk for the certain contract.

#### ***4.3 Reinsurance strategy***

Aimed at mitigating the insurance risk the organization uses the reinsurance program. Most part of reinsurance business is based on proportional principle and also principle based on reinsurance quote/claim accident, and insurance risk limits kept to itself are different according to insurance products and territories (for business airline, the company arranges the insurance only with optional cover, without deducting of significant amount).

Conditional amount of amounts to be compensated by reinsurer is determined in the same way as it takes place in case of determination of the probable profit of policy and they are accounted for in the balance as reinsurance assets. Despite the fact that the company have arranged reinsurance agreements, it is not released from the direct obligation towards the owner of policies, therefore, the credit risk exists in relation to arranged reinsurance, taking into account that it is possible that any reinsurer cannot execute the obligations in accordance with reinsurance agreement. Reinsurance is placed among contractors with high ratings and high concentration of risk in one of them is avoided by those policies which determines limits of risk placement at each contractor. These policies are established annually and are revised regularly. At the end of each year, the management evaluates solvency of reinsurers to replenish strategy of reinsurance acquisition and to determine the corresponding limit of depreciation for reinsurance assets.

#### ***4.4 Conditions of insurance contracts and nature of covered risks***

Conditions of insurance contracts which have a material effect on the number, timing and uncertainty of future cash flows proceeding from contracts are given below. In addition, it gives us an opportunity to evaluate the primary products of organization and management ways risks associated with them.

#### ***4.5 Concentration of insurance risks***

The key aspect of the insurance risk of organization is the extent of concentration of insurance risk, for example can take place such event or series of events, which will have an important impact upon the liabilities of the organization. Such concentration may arise from a single insurance contract or contracts with related contents. Important aspect of concentration of insurance risk is that the risk may be accumulated in the number of individual classes.

In the organization there are two key methods of risk management. First, the risk is managed through underwriting. Underwriter is not permitted to evaluate and underwrite unless the profit is not corresponding to the risk. The second is reinsurance. The organization purchases reinsurance for the various classes (insurance products). The organization assesses costs and benefits associated with reinsurance on an on-going basis.

#### ***4.6 Main assumptions during the calculation of claims to be compensated***

The main assumptions are related to the extent of difference of the future of organization associated with claims from the reality of development of claims in the past. The mentioned includes maximum approximate calculations of the average value of claims, value of claim management, factor of claim depreciation, number of claims, delay between the events of claims, report of claims and compensations for the reporting period of each claim. To evaluate why it is possible that the past trend is not manifested in the future, additional qualified definitions are used, for example single event, changes in market factors, as the attitude of the society to the claim, economic conditions are, as well as internal factors, as the share portfolio composition, policy conditions and claim management procedures. The assumptions are also used to evaluate the extent of impact of external factors upon the conditional indicators, for example court decision and state legislation. Other calculations include variability of interest rate and changes of foreign currency exchange rates.

#### 4.7 Sensitivity

The management of organization believes that proceeding from short-tailed nature of the business the portfolio of organization is sensitive in relation to expected variability of claim ratio. The organization regularly changes the insurance tariffs in accordance with the changes of the mentioned parameter. As a result any trend of change is taken into account.

<b>Note 5 - Cash</b>	<b>31.12.2013</b>	<b>31.12.2014</b>
Lari in bank accounts	525	513
US dollars in bank accounts	6	817
<b>Total cash balance in current bank accounts</b>	<b>531</b>	<b>1330</b>
Deposits in lari	1 000 000	835 000
Deposits in US dollars lari		296 312
<b>Total cash balance in deposit bank accounts</b>	<b>1 000 000</b>	<b>1 131 312</b>
Cash in lari	-	42
<b>Total cash</b>	<b>1 000 531</b>	<b>1 132 685</b>
<b>Note 6 - Other assets</b>	<b>31.12.2013</b>	<b>31.12.2014</b>
Advance payments	2 897	16 322
Claims in respect of industrial employees		11 765
Claims in respect of founder	1 437 906	1 047 237
Interest receivable	493	697
<b>Total other assets</b>	<b>1 441 296</b>	<b>1 076 022</b>

**Note 7 - Fixed assets**

	<b>Land</b>	<b>Buildings</b>	<b>Office equipment except computer equipment and furniture</b>	<b>Computer equipment and peripheral items</b>	<b>Furniture</b>	<b>Auto transport</b>	<b>Total</b>
<b>Initial value</b>							
Balance 31/12/2013	-	-	-	1 717	840	-	2 557
Additions	69 960	104 940	364	9 870	6 765	18 780	210 679
Assets write-off	-	-	-	-	-	-	-
Balance 31/12/2014	69 960	107 940	364	11 587	7 605	18 780	213 236
<b>Accumulated depreciation</b>							
Balance 31/12/2013	-	-	-	(57)	(28)	-	(85)
Depreciation for the period	-	(4 810)	(28)	(2 149)	(1 387)	(3 443)	(4 810)
Depreciation of the assets written-off	-	-	-	-	-	-	-
Balance 31/12/2014	-	(4 810)	(28)	(2 207)	(1 415)	(3 443)	(11 902)
<b>Net value</b>							
<b>Balance 31/12/2013</b>	-	-	-	<b>1 660</b>	<b>812</b>	-	<b>2 472</b>
<b>Balance 31/12/2014</b>	<b>69 960</b>	<b>100 130</b>	<b>336</b>	<b>9 380</b>	<b>6 190</b>	<b>15 337</b>	<b>201 334</b>

**Note 8 - Non-material assets**

	Software	Total
<b>Initial value</b>		
Balance 31/12/2013	960	960
Additions	-	-
Assets write-off	-	-
Balance 31/12/2014	960	960
<b>Accumulated depreciation</b>		
Balance 31/12/2013	(24)	(24)
Depreciation for the period	(144)	(144)
Depreciation of the assets written-off	-	-
Balance 31/12/2014	(168)	(168)
Net value		
<b>Balance 31/12/2013</b>	<b>936</b>	<b>936</b>
<b>Balance 31/12/2014</b>	<b>792</b>	<b>792</b>

**Note 9 - Deferred tax asset**

	2013	2014
Beginning of the year	-	-
Profit tax expense	-	68 823
<b>At the end of the year</b>	<b>-</b>	<b>68 823</b>

<b>Note 10 - Insurance reserves</b>	<b>31.12.2013</b>	<b>31.12.2014</b>
Report but not settled claim reserves	-	311 403
Incurred but not reported claim reserves	-	4 010
Unearned premium reserve	-	2 923
<b>Total insurance reserves</b>	<b>-</b>	<b>318 336</b>

<b>Note 11 - Other liabilities</b>	<b>31.12.2013</b>	<b>31.12.2014</b>
Liabilities arisen from provision and service	2 221	1 412
Other accounts payable		174 900
Income tax payable	-	1 157
Property tax payable	12	629
Advance payment received	-	2 800
<b>Total other liabilities</b>	<b>2 233</b>	<b>180 898</b>

<b>Note 12 - Operating expenses</b>	<b>31.12.2013</b>	<b>31.12.2014</b>
Lease expenses	33 837	38 205
Stationary expenses	511	1 339
Computer expenses	68	1 284
Mobile and office equipment	110	247
Communication expenses	1 170	6 548
Transportation expenses	-	1 460
Public services expenses	-	4 723
Consulting and audit expenses	-	15 002
Notary and legal service	-	4 713
Bank expenses	139	1 189
Business trip expenses	-	4 264
Repair expenses	-	130
Representative expenses	-	87
Advertisement expenses	-	570
Other expenses	4 053	9 987
<b>Other operating expenses</b>	<b>39 888</b>	<b>89 748</b>

### Note 13 - Operations with related party

Related parties or transactions with related parties, are determined International Accounting Standard #24 Related Party Disclosures and represent:

(a) Companies which directly or indirectly control the organization by means of one or more intermediaries, are controlled by it or are controlled with the organization (including, holding companies, subsidiary enterprises and other subsidiary enterprises of one parent enterprise);

(b) Associated enterprises activity of which is significantly affected by the organization and which does not represent neither subsidiary, nor joint company of investor;

(c) Joint enterprise where the organization is founder;

(d) Key management of the organization or founder company;

(e) Immediate family members of persons mentioned in (a) and (b) items; enterprises, significant block of shares with voting power of which directly or indirectly is in possession of persons, which are listed in d) and e) items or persons, on which they can have a significant influence.

During consideration of each related party attention is paid to the essence of relation and not only to the legal form. Transactions carried out between the organization and its associated companies, which also represent the related parties of the organization were reduced on the amount of share of the organization in these companies and in this note such transactions are not represented. Details of transactions between the organization and related parties are given below:

	<u>31.12.2013</u>	<u>31.12.2014</u>
Accounts payable to Fazil Aliev	-	174 900

Natural person Fazil Aliev (personal number 12003000561) represents the former proprietor of the organization, who transferred 50% share without compensation on November 27, 2014 on the basis of protocol of partners' meeting and statement of Entrepreneurial Registry. Fazil Aliev share was distributed among the following current partners: Husein Iaman (17%), Emhmed Akif Afshar (16%), Chetin Aidin (17%).

#### **Note 14 - Capital management**

During capital management the organization aims:

- To ensure the organization's ability to continue the activity in such a way which ensures a profit for the proprietors;
  
- To ensure adequate income for the proprietors in proportion to the level of the service assessed risk.

The organization determines the amount of capital in proportion to the risk. The organization manages and corrects structure of the capital taking into account the economic condition and changes of risks typical for the principal assets.

To perform the mentioned it is possible for the organization to correct the dividend amount payable to the founder, to return the capital to the founder, to increase authorized capital or to sale the assets to settle debt.

## **Note 15 - Unforeseen circumstances**

### *Insurance*

The insurance industry in Georgia is in the phase of development. Therefore, many forms of insurance protection accepted in the world are not fully available in Georgia for the present. The organization has no full insurance cover for its real estate, mounting and equipment, ceasing of activity or liability of the third person towards private property or any casual external damage to the organization's property or operations. Before the organization receives the corresponding insurance coverage there is a risk that loss or destruction of certain assets can cause a material negative impact on operations and financial position of the organization.

### *Judicial proceedings*

In conditions of usual operating of business legal action, disputes and complaints are made in relation to the organization. The management considers that maximum liability (if any) which may arise as a result of such disputes will not have a significant impact on financial or future operating results.

### Tax unforeseen circumstances

The Georgian tax system is comparatively new and its legislative and official provisions, court decisions often change and often are vague, contradictory and their interpretation is different. In case of violation of tax legislation it is not possible to charge any liabilities, penalties and fines if more than six years have passed since the year when the violation took place.

The mentioned environment in Georgia creates tax risks, which are more essential than in other countries. The management considers that it adequately performs the tax obligations, is guided by interpretations of the tax legislation effective in Georgia, official acts and court decisions. However, the corresponding bodies may have other interpretations and in case of successful execution of their interpretations impact on the financial reporting may be significant.

## **Note 16 - Events after the balance date**

### **1. Information about civil trial connected with the claim of Grand Trans Ltd**

On February 3, 2014 between Grand Trans Ltd and Supta Sakhli Ltd was concluded an agreement on consignment terms (installment payments) about supply of diesel fuel. In accordance with the mentioned agreement Supta Sakhli Ltd represented the bank guarantee №1 issued by International Insurance Company Kamara Ltd on February 5, 2014 on amount of 150,000 lari to Grand Trans Ltd to secure payment of the fuel value, guarantee expiration date was determined April 5, 2014 inclusive.

In accordance with the mentioned bank guarantee guarantor took an obligation to pay an amount within the limits of guarantee amount (150,000 lari) to the beneficiary (Grand Trans Ltd) in case of his written demand in case of violation of February 3, 2014 agreement obligations by the principal (Supta Sakhli Ltd).

Grand Trans Ltd demanded from International Insurance Company Kamara Ltd payment of guarantee amount with letter sent on 31.03.2014 on the basis of violation of agreement of February 3, 2014 by Supta Sakhli Ltd, particularly, it did not pay an amount of 149959.60 lari of diesel fuel value supplied based on special tax invoice (series es N105594 and series es N105612) of oil products dated February 7, 2014.

Proceeding from the above mentioned Grand Trans Ltd referred with claim to the Tbilisi City Court against International Insurance Company Kamara Ltd defendant. In the mentioned case the subject of proceeding is non-execution of obligations taken with the bank guarantee №1 issued on February 5, 2014, amount of claim is 144959,6 lari.

The bank guarantee issue was based on agreement of February 5, 2014 between Supta Sakhli Ltd and International Insurance Company Ltd. To this day Supta Sakhli Ltd does not execute obligations taken in accordance with item 17 of the mentioned agreement. In particular, it did not register International Insurance Company Kamara Ltd as first-line mortgagee and did not hypothecate power network in the ownership of Martvili Ltd (identification code 208142865) placed on the territory of bakery plant №3 in Tbilisi, Lilo settlement in no later than 5 (five) calendar days from the day of signature of the agreement by the parties (up to 10.20.2014) (see extract from the Public Registry).

In accordance with the bank guarantee of February 5, 2014, if the principal does not execute conditions envisaged by the agreement between him and the guarantor the obligation of the guarantor to the beneficiary is ceased.

Thus, because the principal did not execute conditions established by the agreement of February 5, 2014 (concluded between Supta Sakhli Ltd and International Insurance Company Kamara) the guarantee obligation to the beneficiary was ceased.

In accordance with the first part of 887<sup>th</sup> article of Civil Code, the fact of informing of the beneficiary by the guarantor about refusal to comply with his claim is confirmed by the claim presented by the claimant. In the mentioned section is indicated, that "the representatives of defendant verbally explain the reason of non-payment of the amount that the principal Supta Sakhli Ltd did not execute an obligation to him to hypothecate the property with first-line mortgage and because of it they could not execute the guarantee terms".

Civil Cases Panel of Tbilisi City Court satisfied the claim of claimant and imposed a payment of 149959.60 lari on International Insurance Company - Kamara Ltd.

Well-founded decision of the court is not prepared yet for transfer to the parties by the court.

Exiting conditional liability of the International Insurance Company - Kamara Ltd is amount of 149959.60 lari, in case of satisfaction of claim by the court may cause a loss in amount of the mentioned amount for International Insurance Company - Kamara Ltd.

Professional assessment of the possible result of the claim of Grand Trans Ltd against International Insurance Company - Kamara Ltd is difficult and there is uncertainty in relation to the expected result, percentage ratio of the possible result - 50/50%, because there is no court practice on bank guarantees (agreement guarantee) of the similar substance. Therefore, a preliminary assessment of the position of courts of higher instances is difficult on the given case.

## 2. Information on the civil case related to the Tskaltubo Municipality claim

On September 30, 2013 Sakrebulo of Tskaltubo Municipality and Anj Metal Ltd concluded an agreement №183 on state purchases about rehabilitation of Tskaltubo Municipality village Chuneshi automobile road and Tskaltubo town streets. Total value of the agreement was 2,161,000 lari, term of execution of works was determined December 31, 2013 inclusive. In the mentioned agreement on Anj Metal Ltd initiative by the agreement of December 26, 2014 was made a change and term of execution of works was prolonged up to March 1, 2014 inclusive.

On April 23, 2014 International Insurance Company Kamara Ltd issued a bank guarantee №03.01-009, by which the guarantee amount is determined equal to 108,050 lari, duration from

April 24, 2014 to July 24, 2014 both dates inclusive. The guarantor issued the bank guarantee at the request of the principal for the purpose of securing of execution of obligations envisaged by

the agreement concluded between the principal and beneficiary based on №1878 letter dated September 23, 2013 (about rehabilitation of Tskaltubo Municipality village Chuneshi automobile road and Tskaltubo town streets).

On June 4, 2014 by the Order №370 of Tskaltubo Municipality Sakrebulo Chairman agreement of September 30, 2013 was ceased, because of non-execution of obligations and penalty sanctions were imposed on Anj Metal Ltd, therefore the demand of transfer of guarantee amount from the defendant was decided.

On June 5, 2014 Tskaltubo Municipality Sakrebulo sent the e-mail letter to the International Insurance Company - Kamara Ltd about termination of the agreement dated September 30, 2013, it was also informed that the guarantee amount must be transferred to the account of the claimant. Tskaltubo Municipality Sakrebulo Chairman Order №370 and Report of the Service of internal audit and monitoring of June 5, 2014 were attached to the letter.

On June 20, 2014 director of International Insurance Company - Kamara Ltd Fazil Aliev addressed Tskaltubo Municipality Sakrebulo in writing. He acknowledged the receipt of e-mail letter of Tskaltubo Municipality and replied to the Sakrebulo that in 10 days he would inform them about decision made on the transfer of the guarantee amount.

Tskaltubo Municipality Sakrebulo sent the letter with the demand of transfer of the guarantee amount to the International Insurance Company Kamara Ltd by mail on June 6, 2014 to the address indicated in the letter of guarantee (Tbilisi, Lvov St. 84a), but was not handed over because of absence of the addressee at the address.

The Kutaisi City Court satisfied Tskaltubo Municipality claim. The first instance court decision was appealed by International Insurance Company Kamara Ltd to the Kutaisi Appeal Court, which upheld the appealed decision. Well-founded appeal court decision is not prepared yet for transfer to the parties by the court.

Professional assessment of the possible result of the claim of Tskaltubo Municipality against International Insurance Company - Kamara Ltd is difficult and there is uncertainty in relation to the expected result, percentage ratio of the possible result - 50/50%, because there is no court practice on cases of the similar category, with high probability Supreme Court of Georgia perhaps, will consider the cassation as admissible. Therefore, a preliminary assessment of the position of the court of cassation is difficult on the given case.

International Insurance Company Kamara Ltd  
Individual financial accounting notes  
As at December 31, 2014  
Accounting currency lari

**Note 17 - Consideration of the continuity of the enterprise**

The International Insurance Company Kamara Ltd was under compulsory administration regime in the period of 2014 that is confirmed by LEPL Insurance State Supervision Service of Georgia on the basis of issued Order 01/45 of August 08, 2014, but the mentioned compulsory administration regime was cancelled on March 09, 2015 on the basis of Order 01/24-o.

In the period of 2015 the management believes and is confident that continuous operating of the organization is not threatened and has no plans of liquidation or significant restriction of activity of the organization.

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სანოტარო მოქმედების  
რეგისტრაციის ნომერი

N150819507



სანოტარო მოქმედების  
რეგისტრაციის თარიღი

30.07.2015 6

სანოტარო მოქმედების  
დასახელება

დოკუმენტის თარგმანზე დიპლომირებული  
მთარგმნელის ხელმოწერის დამოწმება

ნოტარიუსი

დარეჯან ახალბედაშვილი

სანოტარო ბიუროს  
მისამართი

ქ.თბილისი, ქუჩა მტკვარი, #6, სართული 1.

სანოტარო ბიუროს  
ტელეფონი

591706628

სანოტარო მოქმედების  
ინდივიდუალური ნომერი

15320400984415



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მე, ნოტარიუსი დარეჯან ახალბედაშვილი, ჩემს სანოტარო ბიუროში, მდებარე ქ. თბილისი, ქუჩა მტკვარი #6, სართული 1, ვამოწმებ ხელმოწერის ნამდვილობას, რომელიც შესრულებულია მთარგმნელის მზია პაპიაშვილის (დაბ: 26/01/1983წ, მისამართი: ქ. თბილისი, ვარკეთილი 3; მე4 მკ/რნ; 414 კორპ; ბ. 264 პ/ნ 01013015111) ხელმოწერის ნამდვილობას, მთარგმნელმა წარმოადგინა ენის ცოდნის დოკუმენტი (სერთიპიკატის #5437, გაცემული ინტერნეტზე 30 იანვარს, 29/01/2015წ). ხელმოწერის პირადობა დადგენილია, ქმედუნარობა და ნების გამოხატვის ნამდვილობა შემოწმებულია.

მე თარჯიმანი გავაფრთხილე იმ პასუხისმგებლობის შესახებ, რომელიც მოჰყვება არაზუსტ თარგმანს. მთარგმნელმა ჩემს წინაშე დაადასტურა, რომ ჯეროვნად ფლობს ინგლისურ და ქართულ ენებს. თარგმანი ზუსტია და თარგმანზე ხელი მოაწერა ჩემი თანდასწრებით.

გადახდილია საზღაური თანახმად საქართველოს მთავრობის 29/12/2011 წ. დადგენილებისა, სანოტარო მოქმედებათა შესრულებისათვის საზღაურისა და საქართველოს ნოტარიუსთა პარლამენტის დადგენილების საფასურის ოდენობის მათი გადახდევინების წესისა და მომსახურების ვადები, მ.31.3 -2.00 ლარი + 0.36 ლარი, თანახმად საქართველოს საგადასახადო კოდექსის 169 -ე მუხლისა +მ. 39.1 -2.00 ლარი.

I, Notary Darejan Akhalbedashvili, in my notary bureau what is located at the address: c. Tbilisi, Mtkvari street № 6, first floor certify the auenticity of signature of the English language translator **Mzia Papiashvili** (personal № 01013015111, born on 26.01.1983, address: Tbilisi, Varketili 3; m/r 4; block 414, appt. 264). The translator presented the document confirming her knowledge of language – (certificate no: 5437, issued by International House 29/01/2015) Signatory's identity is established, capacity and Expression is tested for authenticity.

I warned translator about her responsibility for the correctness of the translation and Confirmed that she know English and Georgian languages, that translation is correct and make her signature in front of me  
Notary Fee: article 31.3, 2(two) GEL + 0.36 According of 169 article to the Tax Code of Georgia, 39.1 2( two) ) GEL " On fee for execution of the notarial actions and amount of fee established for Notary Chamber of Georgia, order of it's payment and adoption of the service terms" approved by resolution N 507 of the Georgian Government as of December 29,2011

დოკუმენტი შედგება 72 ფურცლისაგან.

The document consists of 72 –  
sheets of papers.

ნოტარიუსი: დარეჯან ახალბედაშვილი  
Notary: Darejan Akhalbedashvili

დასწრების და  
დამკვეთის  
მუშაობის  
სტრუქტურა:  
19017297 \* U.S. U.S.S.R.  
საქართველო

