JSC "PSP Insurance"

Consolidated Financial Report

together with the independent auditor's conclusion

for the year end December 31, 2016

"ITLC" LTD
404911217
GEORGIA

JSC "PSP Insurance"

Consolidated Financial Report

for the year end December 31, 2016

Contents:

"ITLC" LTD
404911217
GEORGIA

Independent Auditor's Conclusion

For: Shareholders and management of the JSC "PSP Insurance"

The auditor's conclusion on consolidated financial reporting

Conclusion

We have held the audit on consolidated financial reporting for the JSC "PSP Insurance" and its subsidiary company "New Clinic" (hereinafter the Group), consisting of the consolidated financial situation for the year end December 31, 2016, the reports on consolidated own capital turnover, consolidated cash flow turnover for the current year ended on the mentioned date and the attached consolidated notes, including the significant accounting policies.

In our opinion, the submitted consolidated report truly and justly shows the Group's consolidated financial situation for the year end December 31, 2016, the consolidated financial results of the activities, the consolidated cash flow turnover for the current year ended on the mentioned date and the financial reports according to the international standards.

The conclusion basis

We have conducted the audit according to the international auditing standards. Our responsibility concerning the standards is described in the paragraph on the auditor's responsibility. We have fulfilled the requirements of the ethics international standards and the Georgian ethics requirements and we do not depend on the Group.

We believe that the obtained auditor proofs are enough to explain the proper opinion.

Paragraph showing special circumstances

The consolidated financial reporting for the year end December 31, 2015 of the JSC "PSP Insurance" was checked by other auditor, who gave the non-modified conclusion on the mentioned consolidated financial reporting on April 12, 2016. Within the consolidated financial reporting in 2016 we have held the previous period's mistakes correction audit described in the 4-th note, held for the situation for December 31, 2015. In our opinion, the corrections are purposeful and are made properly. We were not assigned to conduct the consolidated financial audit for 2015, or to conduct procedures concerning it. Apart from the corrections, we dot express any opinion on consolidated financial reporting for the year 2015. Proceeding from this circumstance, our conclusion is not modified.

Management responsibility for the consolidated financial reporting

The top management is responsible for preparation of the consolidated financial reporting and its submission according to the international standards for the financial reporting, it is responsible also for the inner control, containing no discrepancies or any type of fraud.

To prepare the consolidated financial reporting the top management should assess the Group's permanent activities and submit the proofs. It should also prepare the report concerning it, if it plans no cessation or liquidation of the operations.

The persons in charge are liable for surveillance upon the financial reporting for the Group.

"ITLC" LTD
404911217
GEORGIA

The auditor's liability

Our aim is to conduct the audit in such a way that receives the documented proofs that the given consolidated financial reporting has no incorrect nuances, caused by fraud or mistakes. The documented proof is the higher level proof, however, it does not guarantee, that the audit, held using the international standards always provides the fact the significant mistakes will be found, if any.

The discrepancy may be caused by fraud or mistakes and it is counted material if there are consolidated or aggregated expectations to influence the consolidated financial reporting user's decision.

As a part of the audit, held using the international auditing standards, we keep skeptical and assess things professionally during the entire audit process. We also:

- identify and assess the potential discrepancies risks in the financial reporting, caused by fraud or mistakes, hold the neutralizing procedures and get the proper auditor proofs to express the opinion. The risk of the material discrepancy caused by fraud is higher than that caused by mistake, because the fraud can include the documents falsification, mistakes made on purpose or inner control ignorance;
- study the inner control procedures, important for the audit to plan the proper auditing procedures and not for the purpose of give our opinion on inner control effectiveness;
- assess the accounting policies used by the group and the explanatory notes of the management concerning the consolidated financial reporting;
- assess the management assessment of the permanent activities;
- assess the general submission, structure and contents of the financial reporting, whether it shows the events transparently and correctly;
- get the proper auditing proofs on the group's financial information and activities, in order to express our opinion about the consolidated financial reporting. We are responsible for conducting, surveillance, fulfillment of the auditing. We are responsible only for our auditing opinion.

Apart from the other issues, we have communication with persons in change for management concerning the audit scale, terms and the significant issued, including the inner control and its defects.

Tbilisi, Georgia
April 13, 2017

"ITLC" LTD
404911217
GEORGIA

JSC "PSP Insurance"

Consolidated Financial Report

for the year end December 31, 2016
in GEL

	Note	*2016*	*2015 re-calculated (Note 4)*
premium obtained		30,067,383	17,742,294
changes in the premium reserve		442,945	(790,575)
net premium obtained	5	**30,510,328**	**16,951,719**
insurance loss and insurance liabilities	6	(28,045,790)	(15,446,415)
concerning the loss			
net insurance loss		**(28,045,790)**	**(15,446,415)**
acquisition expenditures		(8,379)	(37,649)
total administrative and marketing expenditures	7	(3,925,516)	(2,866,796)
devaluation loss	8	(389,068)	(550,001)
other income-loss		(146,635)	(110,825)
profit from operational activities		**(2,005,060)**	**(2,059,967)**
interest income, net		513,984	435,255
income (loss) from currency exchange		291,492	602,441
loss before tax		**(1,199,584)**	**(1,022,271)**
income tax expense	9	-	-
total loss		**(1,199,584)**	**(1,022,271)**

Financial statement on behalf o top-management, confirmed for publishing on April 13, 2017 by the following persons:

Director General: ________________V. Bezhashvili

Chief accountant: ________________ N. Tkemaladze

Notes on pages 9-35 represent the integral part of the Financial Report.

Consolidated Financial Report

for the year end December 31, 2016
in GEL

	Note	31.12.2016	31.12.2015 *re-calculated (Note 4)*	31.12.2014 *re-calculated (Note 4)*
assets				
fixed assets	10	259,717	240,551	228,037
non-material assets		14,886	13,800	12,377
pre-paid taxes		55,125	67,809	137,639
resources		63,905	26,530	40,337
insurance demands	11	6,393,406	5,018,364	5,158,725
other assets	12	201,517	138,174	145,641
deposits in banking institutions	13	7,639,378	5,148,479	6,047,302
cash and cash equivalents	14	2,377,639	1,576,122	906,544
Total assets		**17,005,573**	**12,229,829**	**12,676,602**
own capital				
share capital		14,000,000	9,000,000	8,844,630
accumulated loss		(8,195,472)	(6,995,888)	(5,973,617)
total own capital		**5,804,528**	**2,004,112**	**2,871,013**
liabilities				
obligations from insurance contracts	15	9,562,654	8,746,219	8,461,346
other	16	1,638,391	1,479,498	1,344,244
Total liabilities		**11,201,045**	**10,225,717**	**9,805,590**
Total own capital and liabilities		**17,005,573**	**12,229,829**	**12,676,603**

Notes on pages 9-35 represent the integral part of the Financial Report.

“ITLC” LTD
404911217
GEORGIA

Consolidated Financial Report

for the year end December 31, 2016

in GEL

	share capital	*accumulated loss*	*total*
residual recalculated for December 31, 2014 (Note 4)	**8,844,630**	**(5,973,617)**	**2,871,013**
reporting period loss	-	(1,022,271)	(1,022,271)
share capital increased	155,370		155,370
residual recalculated for December 31, 2015 (Note 4)	**9,000,000**	**(6,995,888)**	**2,004,112**
reporting period loss	-	(1,199,584)	(1,199,584)
share capital increased	5,000,000	-	5,000,000
residual calculated for December 31, 2016	**14,000,000**	**(8,195,472)**	**5,804,528**

Notes on pages 9-35 represent the integral part of the Financial Report.

"ITLC" LTD * GEORGIA * 404911217

Consolidated Financial Report

for the year end December 31, 2016

in GEL

	2016	*2015*
cash flow from operational activities		
insurance premium received	27,575,718	16,210,045
incomes from regress and residual property	99,160	196,013
loss covered	(26,105,339)	(15,084,223)
salaries paid	(2,293,808)	(1,642,138)
cash paid to agents and brokers	(7,840)	(54,235)
other operation expenses	(973,009)	(611,327)
rent sum paid	(269,097)	(105,719)
tax paid, except income tax and fines	(651,125)	(349,070)
paid income tax	-	(26,800)
other revenues	203,955	187,353
net cash flows from operation activities received (used)	**(2,421,385)**	**(1,280,101)**
cash flows from investment activities		
acquisition of fixed assets and non-material assets	(55,004)	(81,463)
incomes from fixed assets and non-material assets	7,850	900
increase/decrease in banking inst. deposits	(1,976,776)	1,333,747
net cash flows received/used from investment activities	**(2,023,930)**	**1,253,184**
cash flows from financial activities		
incomes from share emission/capital growth	5,000,000	155,370
net cash flows from financial activities received/used	**5,000,000**	**155,370**
increase/decrease caused by currency exchange	246,832	541,125
net growth from cash flows and their equivalents	**801,517**	**669,578**
cash flows and their equivalents in the period beginning:	1,576,122	906,544
cash flows and their equivalents in the period end:	2,377,639	1,576,122

Notes on pages 9-35 represent the integral part of the Financial Report.

1. General information

JSC "PSP Insurance" (hereinafter – the Company) is registered on August 22, 2007 by Tbilisi Tax Inspection, identification code # 204545572, legal address: #3, Pushkin str., Old Tbilisi district, Tbilisi. On December 18, 2015 according to the Georgian law on insurance the "PSP Insurance" Ltd. has changed the legal form and became JSC "PSP Insurance. The Company is not VAT-payer. For December 31, 2015 the Company founder in citizen Kakhaber Okriashvili, owning 100% of its shares.

The key activities of the Company cover all types of insurance services, apart from re-insurance services.

"New Clinic" Ltd (hereinafter – the affiliate company) is the affiliate company of the 100% founder Company. This company was founded on February 10, 2012, legal address: #150, D. Agmashenebeli avenue, Old Tbilisi district, Tbilisi, identification number – 404415753. The key activities of the "New Clinic" Ltd are medical services.

2. Report on the significant accounting policy of the group

The key accounting policy used in the process of consolidated financial reports preparation for the JSC "PSP Insurance" and "New Clinic" Ltd (hereinafter – the Group).

2.1. Submission base

The consolidated financial reports are prepared according to the international standards for financial reporting, accounting international standards and interpretation (in the whole - FRAI) issued by the Committee for International Accounting Standards (CIAS).

The consolidated financial reports are prepared base on the historical cost. The Group's reporting period covers one calendar year from January 1 to December 31.

According to the FRAI consolidated financial reporting, its preparation requires from the Group top management to make certain assessment, which will influence the assets and liabilities calculated cost for the date the consolidated financial reports are done. This will affect also the incomes and loss volume. The actual results can differ from the current assessments. The results will be re-assessed over time. Corrections, caused the accounting results changed, belong to the period when the changes were transacted. Glossary of the key significant accounting assessment is given in the 3-rd note.

"ITLC" LTD 404911217 GEORGIA

in GEL

Consolidation base

Affiliate companies are enterprises, including the structurized entities, under the Group's control, because: (1) it has a right to conduct the invested activities, affecting significantly the profits, (2) has possibility and right to change profitability of the entity with its participation and (3) has possibility to use power and influence the investor's profitability. When they assess the Group, as it the right to control it and has it the right to vote for the investment? The investor has significant right to make important decisions concerning the production process. The Group can influence the production even when it own less voting rights.

2. Report on the significant accounting policy of the group (*continued*)

2.1. Submission base (continued)

Non-controlling part is a part of the affiliate group activities net results and net capital, which is not directly or indirectly owned by the mother –company. Non-controlling groups in the consolidated financial report is assessed according to the net assets share.

The in-group economic operations results and residuals, the non-realized profit for the consolidation aims is eliminated.

JSC PSP Insurance and its affiliate company New Clinic Ltd use the integral accounting policy, coinciding the group policy.

2.2. Adoption of the new FRAIs, changes in standards and interpretation

a) *After January one, 2016 the standards, interpretations and amendments in force*:

No new standards, interpretations or amendments, effective from January 1, 2016 had any important influence on the consolidated financial reporting of the group;

b) *The new standards, interpretations and amendments issued, but not in force yet*:

The new standards, interpretations and amendments, issued but not in force yet and not used when preparing the financial reporting, can influence the consolidated financial report:

- FRAI 15 – incomes form the contracts concluded with clients;
- FRAI 9 – financial instruments.

FRAI 15 – incomes form the contracts concluded with clients. In May, 2014 was issued FRAI 15 which offers the complete model. After coming into force the FRAI 15 will change the existing income recognizing principle, including BASS 18 incomes, BASS 11-construction contracts and their interpretations.

FRAI 15 principle is that a person should show the incomes, after providing clients with products and services, in such a manner that the profit could be seen clearly. In particular, the standard offers the principle - the five–stage model, spread on all the contracts concluded with clients.

The five–stage model is as follows:

- contract identification with client;

"ITLC" LTD 404911217 GEORGIA

- contract obligation establishment;
- transaction cost determination;
- transaction cost ratio to the contract obligation;
- income recognition, when (or if) a person fulfills the obligations, i.e. when he passed the "control" over the product or services to the client. More directive character instruction was added to themes concerning for example, the income recognition moment, changing salary payments, contract fulfillment and other aspects. There also the new income explanation demands.

FRAI 9 - financial instruments. The new edition published in November 2009 sets the new requirements towards financial assets classification and assessment. In October 2010 amendments were made to FRAI 9, concerning the financial assets classification, assessment and recognition. In November 2013 the new hedging method was added. In July 2014 council for International Standards for Accounting has published the final version of the FRAI 9. As a whole, it covers the requirement for financial assets devaluation and small amendments concerning the classification and assessment. FRAI 9 is aimed at changing the BASS 39 – financial instruments: recognition and assessment.

Key requirements of FRAI 9:

- **Classification and assessment of financial assets.** Financial assets are classified according to business-model, where they are owned and where the cash flow characteristics can be seen. In particular, debt instruments, owned by a person within such a business model, having the contract cash flow and the interests accrued and after the primary recognition, are assessed by depreciated cost. In the FRAI 9 there is the new category named "real cost other total income". This concerns the debt instruments, existing in the business-model, collecting the cash flows and financial assets. In the mentioned debt instruments one should stipulate the contract terms of financial assets, which causes the cash flows movement, representing the main sum payment and the rest interest payment. Such debt instruments, after the primary recognition, are assessed by real cost in other total income. All other debt and share instruments are assessed by real cost. Moreover, according to FRAI 9, a person can put the capital investments (not for trade) and show in the income-loss statement only profit from dividends.

- **Classification and assessment of financial liabilities.** Financial liabilities are classified according to BASS 39 requirements. However, there is some difference in requirements for entrepreneurial person's credit risks assessment. The FRAI 9 requires that changes real cost caused by the credit risk should be shown in the total incomes, if it will not be shown in other total income-loss statement. Further the real cost changes in the income-loss statement will not be shown and re-classified. In the 2014 redaction of the FRAI 9 the model of "expected credit loss" from devaluation, compared to the BASS 39 credit loss model. The expected credit loss model obliges the entrepreneur to register the expected credit losses every day in such a way that the changes could be seen. In other words, *it is not necessary that credit loss could be unregistered.*

"ITLC" LTD
404911217
GEORGIA

in GEL

2. Report on the significant accounting policy of the group (*continued*)

2.2.Adoption of the new FRAIs, changes in standards and interpretation(continued)

• **Hedging registration.** The new hedging model best coincides with financial and non-financial risks positioning hedging, the FRAI 9 offers the entrepreneurs more flexible approach concerning the hedging type. In particular, widened is the instruments types range, classified as hedging instruments and non-financial entities risks components, which can be used for hedging registration. Moreover, the effectiveness test was cancelled and instead they introduced the "economic relations" principle. No retrospective assessment is needed. Concerning risk management measures there are the new definition requirements.

• **Recognition termination**. Demand to terminate the recognition of financial assets and liabilities is taken from BASS 39.

The standard is mandatory to come into force from January 1, 2018. It is permissible to introduce it before this date. When preparing the document it is possible to use the different methods.

Apart from the mentioned above, there are no other standards not in force yet, which could influence the current or future calculations period.

We assess the new standards based FRIA 15 incomes from the contracts concluded with clients and FRAI 9 financial instruments influence, because they can affect a lot the consolidated financial reporting.

2.3. Operations in foreign currency

a) The assessment and submission currency

In the consolidated financial reporting the articles are shown in the currency of the country, where the group functions (operational currency). Thus, the given consolidated financial reporting is shown in Georgian lari (GEL) – the functional and submission currency of the group.

b) Foreign currency converting

Monetary assets and liabilities shown in foreign currency will be recalculated according to the official currency exchange rate, set by the National Bank of Georgia, for the year end. Difference in currency rates are shown in the income-loss statement. The results, shown in foreign currency, will be shown according to the official exchange rate for the implementation date. Difference in currency rates during the monetary converting will be shown in the income-loss statement in the part named "net income/loss from currency exchange difference".

Non-monetary articles are assessed according to the operation time rate.

The last exchange rate for the residuals converting in foreign currency for December 31 of the years 2016, 2015 and 2014 was as follows:

Official exchange rate of the National Bank of Georgia

	US Dollars	**Euro**
rate for December 31, 2016	2.6468	2.7940
rate for December 31, 2015	2.3949	2.6169
rate for December 31, 2014	1.8636	2.2656

2.4. The insurance and investment contracts - classification

The group concludes the agreements, having the insurance or financial risks or both together. The insurance agreement is the agreement where the insurer takes the obligation to have

"ITLC" LTD
404911217
GEORGIA

in GEL

JSC "PSP Insurance"

significant insurance risk for the policy owner. The agreement can also have financial risk as well. The existence of insurance risk depends on the possibility of the insurance accident occurrence as well as on its potential effect volume.

2.5. Liability adequacy test

Every year end the group holds the liabilities adequacy test, in order to assess the recognized insurance liabilities adequacy, decreased by the overdue acquisition expenses and the insurance agreements acquired when merging the enterprises or the insurance agreement portfolio passing. For the adequacy test the group uses current assessment of its future cash flows, losses and the administrative expenses. Any devaluation of balance cost of the insurance liabilities will be recognized as follows: first of all, it will be written in income or loss, and then the devaluation loss reserve will be created.

2.6. Requirements and obligations concerning the insurance and investment contracts

Recognition of the requirements and obligations as are the sums payable for the agents, brokers, policy-owners, is made in the moment of their occurrence.

If there is firm objective proof of the insurance requirements, the group decreases the balance cost of the insurance requirement and recognizes the devaluation loss. The group finds the proofs by the same principle as uses during the depreciated financial assets devaluation. The devaluation loss is calculated by the same principle, as for the financial assets.

(i) regress and the residual property

Several types of the insurance contracts give the group right to sell (as a rule - spoiled) property (as a result of loss coverage) – residual property. The group can also have a right to demand entire or partial compensation (regress).

The compensation received from the residual property will be shown as decreased liabilities, and when the liability will be paid out, it will be recognized as other asset. The sum for decrease of the insurance losses is the sum, which can be received in reasonable period of time from the property realization.

Regresses are seen as the decrease of the insurance loss and are to be recognized in other assets in case, if the liabilities are covered. The sum of liability decrease connected with insurance losses is the sum, which can be received from third persons in reasonable time period.

2.7. Insurance loss liabilities

Reserves are created for the expenses connected with losses and the insurance losses, which occurred, but the group has not regulated them. The insurance loss reserves are split into two categories: declared, but not regulated loss reserve and occurred, but not declared reserve.

(i) declared, but not regulated loss reserve

The group implements formation of the declared, but not regulated loss reserve towards the insurer if there is known request for the calculated period, proven by the proper declarations.

Volume of the declared, but not regulated loss reserve represents the sums reserved for the insurance compensation, toward which no decision is made concerning entire or partial insurance sums coverage.

Volume of the declared, but not regulated loss reserve is shown in the group's balance as liability.

in GEL

ii) occurred, but not declared reserve

Occurred, but not declared reserve was calculated based on the previous data.

2.8. Financial instruments

Financial assets

Financial assets are divided by the group for the following categories, proceeding from the formed asset designation. The group's accounting policy for each category is as follows:

a) Loans and demands

The assets represent not-produced financial assets, having fixed or defined taxes and in the active market their cost is not quoted. As a rule, such financial assets derive from during serving the clients, product supply or loan issuance, but includes also the other type contract monetary assets. Primary recognition of the loans and demands is the real cost plus deal expenses, including the direct financial assets acquisition, emission or realization direct costs, then the recognition is implemented according to the depreciated cost of devaluation reserve, using the method of effective interest rate.

Recognition of devaluation reserve is made when there is an objective proof (for example, significant difficulties concerning counteragents, late payments, etc.) that the group will not be able to collect all the debts payable. Such a sum is difference between the current and the balance costs. For the demanded and issued loans, represented by net costs, the reserves are shown in the separate article, and the proper loss – in the net income statement. In case, if it is impossible to receive all the loans issued, the entire cost of the asset should be decreased by the proper reserve.

In the consolidated financial reports financial assets of the group are represented as insurance demands, banking deposits and cash and cash equivalents.

Cash and cash equivalents include money in cash and on banking accounts.

b) Investments owned before coverage date

Investments owned before coverage date is the non-produced financial assets, fixed or defined with fixed coverage date, which the manufacturing can cover, wishes to cover, moreover:

a) defined by the group when it primarily recognizes the real cost, showing it in income-loss statement;
b) the group considers it the subject for sell;
c) which can be defined as loans and demands.

in GEL

c) Financial asset transacted by real cost, shown in incomes or losses

Financial asset transacted with real cost, showing in the incomes or losses, is the financial asset that satisfies one of the following conditions:

a) it is classified as that for trade and it is classified in such a manner if:

i) acquired or taken only for selling purposes in the nearest period;

ii) during primary recognition it is a part of certain financial instruments portfolio, managed together and in the nearest past it was the short-time income;

iii) derived instrument (minus the derived financial guarantee contract, or effective hedging instrument).

b) during primary recognition it is classified by the group as real cost shown in income or loss. this can be made in following cases:

i) if the contract contains one or more derived instruments, the group has a right to reckon the hybrid (combined) contract the financial asset, which then will be classified as real cost, shown in incomes or loss statement only in cases, when:

- the derived instruments does not significantly change those cash flows, which would be required in other contracts;
- during primary consideration of such hybrid (combined) contract the analyses show that the financial instrument cannot be separately shown, for example, pre-payment right in case of loan, giving the owner to pay amortized sum to cover the debt; or

ii) when doing this gives more proper information, because:

- it entirely or significantly decreases the discrepancies (sometimes called the "accounting discrepancy"), which in other cases would be differentiated from asset assessment or recognition of incomes or losses;
- financial assets group is managed and its result is assessed based on the real cost, according to the set risk management or investment strategy and then the information is passed to the group's top management.

During the current period the group has no financial assets transacted by real cost, shown in incomes or losses.

ეპს "TLC" LTD 404911217 GEORGIA

in GEL

2. Report on the significant accounting policy of the group (*continued*)

2.8. Financial instruments (*continued*)

d) Financial assets for sell

Financial assets for sell are non-produced financial assets, considered as the assets existing for sell or are not classified as: a) loans and demands; b) investments before coverage; c) real cost transacted financial assets, shown in incomes or losses.

During the current period the group has no financial assets for sell.

Financial liabilities

The group classifies the financial liabilities as two types, proceeding from their character. The group policy for each type is as follows:

a) real cost transacted financial liability shown in incomes or losses;

Real cost transacted financial liability shown in incomes or losses is the liability, satisfying one of the following (detailed information see the information on financial assets):

i) it is classified as that for trade and it is classified in such a manner if

ii) during primary recognition it is a part of certain financial instruments portfolio, managed together and in the nearest past it was the short-time income;

During the current period the group has no financial liability transacted by real cost, shown in incomes or losses.

b) other financial liabilities

Other financial liabilities include other liabilities first recognized by real cost, further – by amortized cost – using the effective interest rate method.

Termination of financial assets recognition

The group terminates recognition of financial assets only in cases, when: a) the term of contract right for receiving the cash flows from financial assets; or b) passes cash flows from the financial assets owning right or concludes such deals, when: c) together with assets all the significant risks and interests; or d) the group does not pass significant risks and interests concerning assets ownership, but it does not keep the control on it. The control is kept if the counteragent has no right to sell the asset to third parties, without any limitations.

"ITLC" LTD
404911217
GEORGIA

in GEL

2.9. Fixed assets

The group registers the fixed assets according to the BASS 16. Primary recognition of fixed assets is implemented by cost price. The cost price includes the acquisition price, other direct expenses and the assets dismounting, liquidation and location restoration changes, and their future flows current assessment. The proper liability is recognized as source.

Future period expenses are added to the balance asset cost or are recognized as separate asset in case, if it is expected that the future economic revenue will be added and the future expenses will surely be defined. The balance cost of the changed component will be discounted. All other expenses connected with assessment and maintenance of the asset will be recognized as income or loss for the period it occurred.

Depreciation is calculated using linear method, and the asset cost is allocated through the residual service period.

Useful service time for fixed assets:

Group	Useful service time (years)
technical equipment	5
furniture	10
automobiles	5

For each calculated period end the asset's residual cost and service time are being recalculated and changed, if necessary.

Income or loss concerning the asset cancellation are defined after comparing the balance costs and in the total revenue statement is recognized as net sum, as other income/loss.

2.10. Current and overdue income tax

The tax expenses for a period consist of the current and overtime tax expenses. The tax recognition is shown in the total report, apart from cases, when it is caused by other total incomes or the capital changes. In this case, the tax is recognized in other total income or capital.

The current income tax is calculated according to the legislation in force for the moment of reporting in the country the group functions. The top management periodically examines the tax approaches in the legislation, according to different interpretations. The group creates transfer expected to be paid for the taxation bodies.

Recognition of overtime income tax is based on the time lapse between the taxation and financial bases for assets and liabilities. However, it is not recognized in case, when it derives from the primary recognition of the assets and liabilities, and does affect neither taxation nor financial market. The overtime income tax is calculated using the income tax interest, which is expected to be in effect for the moment of the proper mandatory taxation to cover the asset tax realization and liability.

in GEL

The overtime income tax is recognized only in case when they expect to have income subject to taxation, discounted from the current period's difference.

The overtime taxation asset and liability will be closed in case, when there is just right to cover the taxation asset towards the current liability; and when the overtime taxation asset and liability are subject to one and the same taxation legislation, during which it is possible to show the assets and liabilities as net sum.

2.11. Financial and operational rent

Rent is operational, if significant risks and revenue from the asset ownership stay with the lesser. In such case the rent tax (decreased by the rent sum to be received) is recognized in the total income statement, according to the whole rent period time.

3. Main accounting assessments and decisions

The assessments and decisions are permanently checked, according to the experience and other factors, set for the future period expected events. The future experience can be different from the assessments. Below we have shown the assessments and permissions, holding significant changes risk for the balance costs of assets and liabilities.

Main assessments and permissions

a) Final losses derived from the insurance contracts

Establishment of final liabilities concerning non-life insurance contracts is the most important assessment for the group. Certain unclearness exists when assessing the final loss payment obligation.

Assessment of non-life insurance contracts should be made for the expected final losses as well as for un-declared losses. Finding the total final losses can take long period of time. For several types of polices, the reserve of occurred, but not declared losses makes out the most part of the insurance liabilities shown in the financial report. The losses are not discounted.

b) Useful service time for fixed assets and non-material assets

Depreciation of fixed assets goes through its useful service time. Definition of the useful service time depends on the management's assessments concerning when it expects to get the revenues from using the assets. The useful service time should be periodically checked. Changes in assessment cause significant changes in balance cost and total revenue report.

c) Income tax

During regular activities of the group there are such operations, which are not clearly defined towards taxation. As a result, the group assesses whether it will have to cover the taxation liability or not.

The taxation liabilities are recognized when the group has it own tax declarations, but it reckons the taxation bodies would have other point of view. Thus the group minimizes this risk.

d) Analyses of insurance requirements devaluation

The group assesses the insurance contracts requirements on devaluation. The devaluation signs are payment date breach, lowered credit rating of creditor.

"ITLC" LTD
404911217
GEORGIA

in GEL

In case there are the devaluation risks, the top management assesses the future cash flows of the portfolio, and if necessary, future cash flows for the consolidated requirement.

4. Errors and reclassification of previous period

In the finished consolidated financial report for December 31, 2015 the group management has corrected the errors and made reclassification. In the management's opinion, the new submission more justly shows the company's consolidated financial condition and the consolidated income-loss. In particular, the management has held the following changes:

- from previous year regress it made devaluation according to the total reserve policy and the individual devaluation of material requirements and creation of individual reserve, which was not made in the previous period;
- drawn up the accounting policy, but proceeding from past experience of the company. In the previous periods the company calculated the reserve according to the insurance legislation norms;
- changed the taxation policy for assets and cancelled the previously recognized asset, because it was not assessed correctly;
- willingly reclassified the financial reporting submission.

In 2015 the consolidated financial report had the following changes according to the article:

		2015		
previous period errors and reclassification correction effect on consolidated financial report	**submitted in previous period**	**recalculation effect**	**reclassification**	**recalculated**
cash and cash equivalents	6,701,532	-	(5,125,410)	1,576,122
deposits in banking institutions	-	-	5,148,479	5,148,479
interest receivable	23,069	-	(23,069)	-
insurance requirements	5,419,932	(401,568)	-	5,018,364
liabilities from insurance contracts	-	-	8,746,219	8,746,219
occurred but undeclared loss reserve	466,072	(308,835)	(157,237)	-
declared but unregulated loss reserve	4,155,201	-	(4,155,201)	-
overdue income	4,406,586	-	(4,406,586)	-
other liabilities	-	-	1,479,498	1,479,498
liabilities from supply and services	1,465,304	-	(1,465,304)	-
other current liability	41,389	-	(41,389)	-
accumulated loss	(5,318,853)	(1,020,690)	(656,345)	(6,995,888)
current year income/loss	(680,369)	-	680,369	-
overdue income tax asset	903,934	(877,189)	(26,745)	-

in GEL

4. Errors and reclassification of previous period (*continued*)

previous period errors and reclassification correction effect on consolidated financial report	submitted in previous period	2015 recalculation effect	reclassification	recalculated
insurance losses and changes in loss-connected insurance obligations	-	-	(15,446,415)	(15,446,415)
insurance reserve	(15,435,922)	(738,545)	16,174,467	-
occurred but not declared loss reserve	(466,072)		466,072	-
other income	330,794	-	(330,794)	-
medical service expenses	(6,031)	-	6,031	-
income percentage, net	435,255	(402,520)	402,520	435,255
devaluation loss	(147,481)	(64,166)	(338,354)	(550,001)
other (expenditure) income	(110,825)	863,330	(863,330)	(110,825)
income tax expense	67,476	-	(67,476)	-

In 2014 the consolidated financial report had the following changes according to the article:

previous period errors and reclassification correction effect on consolidated financial report	submitted in previous period	2014 recalculation effect	reclassification	recalculated
cash and cash equivalents	6,765,784	-	(5,859,240)	906,544
deposits in banking institutions	-	-	6,047,302	6,047,302
interest receivable	188,062	-	(188,062)	-
liabilities deriving from insurance contracts	8,646,349	-	(185,003)	8,461,346
occurred but not declared loss reserve	-	(185,003)	185,003	-
other liabilities	1,344,244	-	-	1,344,244
share capital	9,000,000	(155,370)	-	8,844,630
accumulated loss	(3,383,123)	(654,764)	(1,935,730)	(5,973,617)
current year income (loss)	(1,935,730)	-	1,935,730	-
overdue income tax asset	839,767	(839,767)	-	-
capital coverage demand	155,370	(155,370)		-

in GEL

5.Net premium obtained

Net premium obtained according to the insurance type for the calculated year end December 31, 2016 is presented as follows:

	2016		
	total premium obtained	**changes in premium reserve**	**premium obtained**
medical (health) insurance	23,433,631	501,974	23,935,605
ground transport means insurance	1,739,363	(202,159)	1,537,204
travel insurance	1,961,157	31,742	1,992,899
life insurance	2,479,303	77,572	2,556,875
accident insurance	266,772	58,137	324,909
other	187,157	(24,321)	162,836
total	30,067,383	442,945	30,510,328

Net premium obtained according to the insurance type for the calculated year end December 31, 2015 is presented as follows:

	2015		
	total premium obtained	**changes in premium reserve**	**premium obtained**
medical (health) insurance	14,034,766	(686,776)	13,347,990
ground transport means insurance	630,025	125,113	755,138
travel insurance	1,123,068	(33,896)	1,089,172
life insurance	1,488,660	(71,456)	1,417,204
accident insurance	379,302	(47,635)	331,667
property insurance	86,473	(75,925)	10,548
total	17,742,294	(790,575)	16,951,719

6.Insurance loss and changes in insurance liability connected with losses

Insurance loss and changes in insurance liability connected with losses for the year end December 31, 2015 and 2016 is as follows:

	2016	**2015**
regulated losses	(27,220,662)	(16,279,600)
changes in loss reserve	(1,259,380)	502,392
regresses	434,252	330,793
insurance loss and changes in insurance liability connected with loss	(28,045,790)	(15,446,415)

" ITLC " LTD * GEORGIA *

in GEL

7.Common, administrative and marketing expenses

Common, administrative and marketing expenses for the year end December 31, 2015 and 2016 is as follows:

	2016	2015
salaries	(2,928,027)	(2,027,008)
rent	(271,528)	(257,042)
office inventory expenses	(148,376)	(66,938)
depreciation, amortization	(97,740)	(82,302)
consultation expenditures	(71,421)	(49,909)
banking expenditures	(46,133)	(21,826)
communication expenses	(37,279)	(26,951)
fuel expenditures	(30,530)	(31,288)
insurance	(23,583)	-
printing expenses	(13,943)	(43,226)
representation expenses	(13,900)	-
travel expenses	(7,750)	(18,183)
training expenses	(3,092)	-
taxation expenses	(7,326)	(2,059)
repairs expenses	(1,861)	-
other expenses	(223,027)	(240,064)
total	(3,925,516)	(2,866,796)

8.Devaluation loss

The insurance requirement devaluation loss for the year end December 31, 2015 and 2016 is as follows:

2016

	policy owners demand	regresses demands	total
January 1	(288,298)	(402,520)	(690,818)
reserve changed	(99,261)	(282,353)	(381,614)
December 31	(387,559)	(684,873)	(1,072,432)

2015

	policy owners demand	regresses demands	total
January 1	(140,817)	-	(140,817)
reserve changed	(147,481)	(402,520)	(550,001)
December 31	(288,298)	(402,520)	(690,818)

in GEL

9.Income tax expenses

Income tax expenses for the year end December 31, 2015 and 2016 is as follows:

	2016	2015
current income tax	-	-
time lapse effect	-	-
total	-	-

	2016	2015
loss before tax	(1,199,584)	(1,022,271)
income tax rate	15%	15%
theoretic income tax (expense)/revenue	179,938	153,341
recognized tax asset effect	(183,160)	(130,928)
permanent difference effect	3,222	(22,413)
total	-	-

Changes in overdue income tax for December 31, 2016, 2015 and 2014 year end are as follows:

time lapse effect	31.12.2014	transacted in income/loss	31.12.2015	transacted in income/loss	31.12.2016
fixed assets	(34,206)	(1,877)	(36,083)	(2,875)	(38,958)
non-material assets	277	1,330	1,607	(868)	739
insurance demands	21,123	82,500	103,623	57,242	160,865
previous years loss occurred, but not declared	870,385	67,693	938,078	172,073	1,110,151
reserve	(27,750)	(18,718)	(46,468)	(42,412)	(88,880)
taxable asset/liability	829,829	130,928	960,757	183,160	1,143,917
not recognized time lapses					
fixed assets	-		-	-	
non-material assets	(277)	(1,330)	(1,607)		(739)
insurance requirements	(21,123)	(82,500)	(103,623)	(57,242)	(160,865)
previous year loss	(808,429)	(47,098)	(855,527)	(125,918)	(982,313)
net taxable asset/liability	_	_	_	_	_

in GEL

10.Fixed assets

Fixed assets for December 31, 2016, 2015 and 2014 year end are as follows:

historic cost	**office equipment**	**furniture**	**automobiles**	**total**
December 31, 2014	236,788	165,174	16,241	418,203
incomes	57,950	27,036	472	85,458
expenditures	(4,287)	-	-	(4,287)
December 31, 2015	290,451	192,210	16,713	499,374
incomes	36,553	58,574	20,234	115,361
expenditures	(720)	-	(8,450)	(9,170)
December 31, 2016	326,284	250,784	28,497	605,565
depreciation accrued				
December 31, 2014	(127,763)	(56,239)	(6,164)	(190,166)
depreciation during year	(49,889)	(19,894)	(2,804)	(72,587)
expenditures	3,930	-	-	3,930
December 31, 2015	(173,722)	(76,133)	(8,968)	(258,823)
depreciation during year	(52,300)	(31,170)	(4,416)	(87,886)
expenditures	720	-	141	861
December 31, 2016	(225,302)	(107,303)	(13,243)	(345,848)
balance cost				
December 31, 2014	109,025	108,935	10,077	228,037
December 31, 2015	116,729	116,077	7,745	240,551
December 31, 2016	100,982	143,481	15,254	259,717

11.Insurance requirements

Insurance requirements for December 31, 2016, 2015 and 2014 year end are as follows:

	31.12.2016	**31.12.2015**	**31.12.2014**
policy owners requirements	6,587,961	5,160,892	4,940,021
regress requirements	874,281	542,600	356,808
other	3,596	5,690	2,713
	7,465,838	**5,709,182**	**5,299,542**
devaluation reserve for insurance requirements	(387,559)	(288,298)	(140,817)
devaluation reserve for regresses	(684,873)	(402,520)	-
total	**6,393,406**	**5,018,364**	**5,158,725**

The insurance requirements real cost for December 31 of the years 2016, 2015 and 2014 is not defined by their balance costs.

in GEL

12.Other assets

Other assets for December 31, 2016, 2015 and 2014 year end are as follows:

	31.12.2016	31.12.2015	31.12.2014
advanced payments for suppliers	91,453	91,453	91,453
taxable assets	55,142	-	-
other current assets	48,112	40,683	19,711
overtime commission expense	5,658	4,386	26,732
requirements before production staff	1,152	1,652	7,745
total	201,517	138,174	145,641

13.Deposits placed in banking institutions

Deposits placed in banking institutions for December 31, 2016, 2015 and 2014 year end are as follows:

	31.12.2016	31.12.2015	31.12.2014
main sum	7,615,222	5,125,410	5,859,240
interest	24,156	23,069	188,062
total	7,639,378	5,148,479	6,047,302

Deposits placed in banking institutions include deposits opened for more than 3 months in the Georgian resident banks.

The JSC "PSP Insurance" is obliged to open accounts in banking institutions (mandatory reserves) and have money means, the money volume is dependent on the volume of insurance sums to be compensated. The company's right to dispose freely the deposit is limited by legislation.

Information on coverage dates and currency is given in note 17.

14.Cash and cash equivalents

Cash and cash equivalents for December 31, 2016, 2015 and 2014 year end are as follows:

	31.12.2016	31.12.2015	31.12.2014
money on current bank account in national currency	1,444,804	1,177,098	861,148
money on current bank account in foreign currency	865,358	384,700	11,340
cash in cash dep-t	67,477	14,324	34,056
total	2,377,639	1,576,122	906,544

Information on cash and cash equivalents is given in note 17.

15.Liabilities deriving from insurance contracts

Liabilities deriving from insurance contracts for December 31, 2016, 2015 and 2014 year end are as follows:

a) not obtained premium reserve

not obtained premium reserve	**31.12.2016**	**31.12.2015**
residual for January 1	4,406,586	3,616,011
obtained premium	31,470,500	19,417,246
obtained premium cancellation	(1,403,117)	(1,674,952)
not obtained premium	(30,510,328)	(16,951,719)
residual for December 31	**3,963,641**	**4,406,586**

b) losses reserve

	31.12.2016	**31.12.2015**
declared, but not registered loss reserve for January 1	4,183,350	4,703,781
occurred but not declared loss reserve for January 1	156,283	138,244
total loss reserve for January 1	**4,339,633**	**4,842,025**
previous year loss paid	(2,960,729)	(3,204,501)
previous year loss assessment changes	142,885	(23,984)
current year loss regulation expenses assessment	28,337,157	15,801,192
current year loss regulated	(24,259,933)	(13,075,099)
total loss reserve for December 31	**5,599,013**	**4,339,633**
declared, but not regulated loss reserve for December 31	5,390,336	4,183,350
occurred but not declared loss reserve for December 31	208,677	156,283

Liabilities deriving from insurance contracts – fixed assets and permissions

1) Insurance contracts

The insurance contracts include medical, life, property, accidents, Casco, travelling insurance, such types of insurance contracts are mainly concluded for 12 months.

The insurance reserve (occurred, but not declared loss reserve and declared, but not regulated loss reserve) is defined for covering the final cost concerning loss, already occurred and is assessed based on the known facts.

New assessment of reserve is made on regular basis, taking into the account the loss occurrence tendency. Discount for insurance loss reserve for money timely cost is not made.

2) Key permissions

Information on calculation of the occurred, but not declared losses reserve, including the liabilities adequacy test, is given in note 2 (significant accounting policy report, insurance contract obligations).

"ITLC" LTD

in GEL

16.Other liabilities

Other liabilities for December 31, 2016, 2015 and 2014 year end are as follows:

	31.12.2016	31.12.2015	31.12.2014
rent	648,978	642,000	495,000
other current liabilities	27,893	309	766
agent's service	24,220	26,562	30,929
broker's service	17,363	14,386	49,888
taxes payable	-	26	4,476
liabilities before production staff	-	96	15
salaries payable	-	11	62,115
other liabilities *	919,937	796,108	701,055
total	**1,638,391**	**1,479,498**	**1,344,244**

Real cost of other liabilities for December 31, 2016, 2015 and 2014 year end do not differ from the balance cost.

*Other liabilities represent liabilities deriving from medical preparations and other medical services price discounted by the parties.

17. Risk management

Risk management is the essential element of the insurance activities. For the group's activities it is natural part, but its management is possible with regular measures, as are the risk identification, assessment and daily monitoring, as a result of which the risk limits, control mechanisms will be established. Every person in the group is liable e for the risks; the main financial risks of the group represent credit, liquidity, interest rate and currency risks. The risk management policy is considered below.

17.1. Capital management goals, policy and approaches

The group has drawn up the following goals, policy and approaches to manage risks, affecting the capital position.

Goals of the capital management:

- the group should keep the stability level, as a result, provide protection for the insurance policy owner;
- effectively allocate the capital and help business development, in order to get capital turnover;
- keep financial stability for stable liquidity and different capital markets availability;
- to provide the capital owners satisfaction, keep the financial power and increase the business for the insurance policy owners.

The group activities are subject to regulatory demands within jurisdiction of action. Such regulatory acts define not only activities direction, but also the certain limiting norms, for example, the capital adequacy norms for minimization of risks. The group capital management policy is directed towards the enough liquid assets, surveillance requirements.

in GEL

Capital management approach

The group tries to optimize the capital structure and source optimization, in order to permanently improve the capital and policy owners' condition. The approach includes assets, liabilities and risks coordinated management, assessing permanently the capital volume and affect the capital positioning of the group.

17.2. Insurance risks management

The insurance risk is the risk that the insurance risk will occur, containing the risk volume and the application period risks. The main risk of the group is that the actual loss and the insurance sum value can be greater than the balance cost of insurance liabilities. This is caused by the fact that the frequency of losses and their volume can be more that the primary loss liability.

With purpose or risk neutralization it diversifies the insurance contracts portfolio, decreasing the risk of unforeseen negative results. The risk neutralization is made also using underwriting method. The group underwrites the directives and limitations, from where they will see who can get risks and what are the limitations. The monitoring is implemented on regular basis.

The group uses the "loss coefficient" in order to monitor the insurance risks. The coefficient is calculated by dividing net insurance loss on net insurance income.

The group loss coefficient is as follows:

	2016	**2015**
loss coefficient	92%	91%

JSC "PSP Insurance" insurance includes medical, life, property, accidents, Casco, travel insurance. The insurance as rule is for 12 months. For non-life insurance contracts the most significant risk is naturals disasters and fires, mainly the property insurance for medical insurance contracts, the essential risk is connected with life style change, mass disease of the insured persons, etc. The risks significantly differ from their place of origin, type and industry. Proceeding from the portfolio the sums ration can negatively influence the company revenues.

The mentioned risk level is decreased according to the insurance contracts diversification. The risk is neutralized also choosing the right underwriting strategy. This is done by splitting the industries and hard loss consideration policy. The loss regulation procedures represent the company risks. The company limits the risk level for certain contracts in order to decrease the catastrophe-connected risks, for example, caused by tornado, earthquake and flood.

The table below shows the analyses for insurance contract liability according to types:

	31.12.2016	**31.12.2015**	**31.12.2014**
medical (health) insurance	7,518,038	7,237,608	6,752,568
land transport means insurance	919,072	406,751	738,853
life insurance	713,341	731,806	473,317
accident insurance	211,570	87,319	266,717
travel insurance	150,536	281,372	144,110
other	50,097	1,363	85,781
total	**9,562,654**	**8,746,219**	**8,461,346**

in GEL

17.Risk management (*continued*)

17.2. Insurance risks management (*continued*)

Basis of suspense for future loss compensation assessment

The liability to cover losses connected with insurance deals is derived from the moment they actually occur. There are several changeable, affecting the suspense of cash flows and their timely coverage. The suspense mainly is connected with the inner risk of the insured sector, the procedures of risk management recognized in the group.

The assessed cost of losses includes the direct expenditures, decreased by the third party. The group tries to assure that it has the necessary information enough about the origin of the insurance losses. Despite this, taking into the account the insurance loss reserves, as a rule, the actual results differ from the group's assessed primary liability. The liability includes the occurred, but not declared loss reserves, and the declared, but not registered loss reserves.

As a rule the assessment of the occurred, but not declared loss reserves is connected with certain undefined nuances, when the assessment of loss cost is known for the group.

Every period end the group holds the adequacy tests for losses: the group defines, whether the loss liability is less than the balance sum, according to BASS 37 "derivatives, conditional liabilities, assets" or coincides with it. The group will recognize the unused sum in incomes or losses and increase the proper insurance liability's balance cost.

17.3. Financial risks management

During its activities the group will face the risks of the following types:

- credit risks
- liquidity risks
- interest risk
- currency risk.

Main financial instruments

Financial instruments used by the group that can face the financial risks, as follows:

	31.12.2016	31.12.2015	31.12.2014
deposits in banking institutions	7,639,378	5,148,479	6,047,302
cash and cash equivalents	2,377,639	1,576,122	906,544
insurance demands	6,393,406	5,018,364	5,158,725
total financial assets	**16,410,423**	**11,742,965**	**12,112,571**

in GEL

17. Risk management (*continued*)

17.3. Financial risks management (continued)

Liquidity risk

The liquidity risk is derived from the group's management of its capital turnover and fixed liabilities coverage. The risk is that the group may have difficulties when liability covering in due time.

The group controls such risks according to due time periods and defines the further strategy for future financial period.

In order to manage the liquidity risk the group regularly monitors the future cash flows, which is the process of assets/liabilities management.

Liquidity risks analyses for December 31, 2016 is as follows:

	within 1 year	1- 5 years	more than 5 years	total
deposits in banking institutions	4,198,538	3,440,840	-	7,639,378
total interest holding assets	4,198,538	3,440,840	-	7,639,378
cash and cash equivalents	2,377,639	-	-	2,377,639
insurance demands	5,808,235	585,171	-	6,393,406
total financial assets	**12,384,412**	**4,026,011**	-	**16,410,423**
liabilities from insurance contracts (apart from premium reserve)	5,606,744	-	-	5,606,744
other liabilities	1,638,391	-	-	1,638,391
total financial liabilities	**7,245,135**	-	-	**7,245,135**
liquidity difference	5,139,277	4,026,011	-	9,165,288
cumulative liquidity difference	**5,139,277**	**9,165,288**		**9,165,288**

Liquidity risks analyses for December 31, 2015 is as follows:

	within 1 year	1- 5 years	more than 5 years	total
deposits in banking institutions	2,993,069	2,155,410	-	5,148,479
total interest holding assets	2,993,069	2,155,410	-	5,148,479
cash and cash equivalents	1,576,122	-	-	1,576,122
insurance demands	4,010,060	1,008,304		5,018,364
total financial assets	**8,579,251**	**3,163,714**	-	**11,742,965**
liabilities from insurance contracts (apart from premium reserve)	4,339,633	-	-	4,339,633
interest holding liabilities	-	-	-	-
	1,479,498	-	-	1,479,498
total financial liabilities	**5,819,131**	-	-	**5,819,131**
liquidity difference	2,760,120	3,163,714	-	5,923,834
cumulative liquidity difference	**2,760,120**	**5,923,834**		**5,923,834**

in GEL

17. Risk management (*continued*)

17.3. Financial risks management (continued)

Liquidity risks analyses for December 31, 2014 is as follows:

	within 1 year	1- 5 years	more than 5 years	total
deposits in banking institutions	4,370,062	1,677,240	-	6,047,302
total interest holding assets	4,370,062	1,677,240	-	6,047,302
cash and cash equivalents	906,544	-	-	906,544
insurance demands	4,628,060		530,665	5,158,725
total financial assets	**9,904,666**	**2,207,905**	-	**12,112,571**
liabilities from insurance contracts (apart from premium reserve)	4,842,025	-	-	4,842,025
other liabilities	1,344,244	-	-	1,344,244
total financial liabilities	**6,186,269**	-	-	**6,186,269**
liquidity difference	3,718,397	2,207,905	-	5,926,302
cumulative liquidity difference	**3,718,397**		**5,926,302**	**5,926,302**

Market risk

Market risk is the risk of real price decrease of financial instruments as a result of market conditions change.

The group's market risk derives from the interest holding, trade and foreign currency financial instruments use. The risk is connected with changes in financial instruments real cost or their future cash inflows interest rates changes (interest risk) and currency exchange (currency risk) changes.

Interest risk

Interest risk is the risk (variable cost) connected with interest holding assets – proceeding form variable interest rates of deposits in banking institutions.

Currency risk

Currency risk is the risk connected with currency exchange rate changes, the group may face currency risk with its financial instruments and money means.

Currency risk analyses for the period given:

2016	**GEL**	**USD**	**EUR**	**Total**
financial assets				
deposits in banking institutions	3,894,223	3,745,155	-	7,639,378
cash and cash equivalents	1,522,393	853,841	1,405	2,377,639
insurance demands	5,898,987	362,584	131,835	6,393,406
total assets	**11,315,603**	**4,961,580**	**133,240**	**16,410,423**
liabilities from insurance contracts (apart from premium reserve)	5,606,744	-	-	5,606,744
other liabilities	1,638,391	-	-	1,638,391
total liabilities	**7,245,135**	-	-	**7,245,135**
open currency position	**4,070,468**	**4,961,580**	**133,240**	**9,165,288**

17. Risk management (*continued*)

17.3. Financial risks management (continued)

2015	GEL	USD	EUR	Total
financial assets				
deposits in banking institutions	2,993,069	2,155,410	-	5,148,479
cash and cash equivalents	1,191,421	383,383	1,318	1,576,122
insurance demands	4,946,382	71,011	971	5,018,364
total assets	**9,130,872**	**2,609,804**	**2,289**	**11,742,965**
liabilities from insurance contracts (apart from premium reserve)	4,339,633	-	-	4,339,633
other liabilities	1,479,498	-	-	1,479,498
total liabilities	5,819,131	-	-	5,819,131
open currency position	**3,311,741**	**2,609,804**	**2,289**	**5,923,834**

2014	GEL	USD	EUR	Total
financial assets				
deposits in banking institutions	4,171,951	1,875,351	-	6,047,302
cash and cash equivalents	895,204	10,200	1,140	906,544
insurance demands	5,106,666	52,059	-	5,158,725
total assets	10,173,821	1,937,610	1,140	12,112,571
liabilities from insurance contracts (apart from premium reserve)	4,842,025	-	-	4,842,025
other liabilities	1,344,244	-	-	1,344,244
total liabilities	6,186,269	-	-	6,186,269
open currency position	**3,987,552**	**1,937,610**	**1,140**	**5,926,302**

Currency risk sensitivity

The table below shows the group's sensitivity towards US dollars and Euro exchange rate towards GEL, in the 20% increase/decrease terms. 20% is the rate, which is submitted to the group management when passing the information about currency risks. According to the management assessment, it is the rate, for possible exchange variations. The sensitivity analyses include the balance sums for foreign currency with 20% changes. The re-assessment effect of net revenue and capital assets for the year end December 31, 2016, 2015 and 2014 is as follows:

	US Dollar		Euro	
2016	GEL/dollar	GEL/dollar	GEL/Euro	GEL/Euro
20%	– 20%	20%		– 20%
income/loss	992,316	(992,316)	26,648	(26,648)
2015	GEL/dollar	GEL/dollar	GEL/Euro	GEL/Euro
20%	– 20%	20%		– 20%
income/loss	521,961	(521,961)	458	(458)
2014	GEL/dollar	GEL/dollar	GEL/Euro	GEL/Euro
20%	– 20%	20%		– 20%
income/loss	387,522	(387,522)	228	(228)

"ITLC" LTD * GEORGIA * 404911211

in GEL

18. Operations with connected parties

Connected parties and operations concerning the parties according to BASS 24 "The connected parties explanatory notes" occurs, when:

a) the party directly or using one or more medium link indirectly: controls the enterprise, is controlled by the enterprise or is being under the general control (including the main and affiliate enterprises); has such a share in the enterprise that can influence significantly on it; jointly controls the enterprise;
b) party represents the top management member of the enterprise or its headquarters;
c) party is family member of the parties, stipulated by items (a) or (b);
d) party is an enterprise that controls jointly controls or is influenced a lot by tone of the parties, stipulated by items (a) or (b) or had significant voting right.

Considering each possible links with connecter parties the attention is paid to the economic contents of operations and not to its legal parts. Detailed consideration of the connected parties is given below.

Operations with connected parties in the total revenue report for the years 2015 and 2016 are as follows:

	2016		2015	
	operations with connected parties	**total sum of article in income/loss**	**operations with connected parties**	**total sum of article in income/loss**
premium attracted	1,289,397	30,067,383	1,105,589	17,742,294
PSP Pharma Ltd *	1,092,936		917,221	
New Hospitals Ltd *	190,454		185,789	
Aksa Medical Ltd *	6,008		2,579	
General, Administrative and marketing expenses	(178,755)	(3,925,516)	(176,400)	(2,866,796)
PSP Pharma Ltd *	(178,755)		(176,400)	
top management's salaries	**(222,236)**	**(2,951,610)**	**(160,253)**	**(2,027,008)**
salary expenditures	(222,236)		(160,253)	

* Connected parties represent companies subject to the general control.

18. Operations with connected parties (*continued*)

	2016		2015		2014	
	operations with connected parties	total sum of proper article	operations with connected parties	total sum of proper article	operations with connected parties	total sum of proper article
insurance requirements	**964,737**	**6,489,088**	**203,900**	**5,017,412**	**44,465**	**5,158,725**
PSP Pharma Ltd *	901,252		158,070		-	
New Hospitals Ltd *	63,017		45,561		44,465	
Aksa Medical Ltd *	468		269		-	
other liabilities	**1,565,220**	**1,649,294**	**1,434,256**	**1,506,693**	**1,196,121**	**1,344,244**
PSP Pharma Ltd *	1,561,595		1,431,256		1,187,537	
Aksa Medical Ltd *	3,625		3,000		-	
New Hospitals Ltd *	-		-		8,584	
liabilities from insurance contracts	-	**9,562,654**	-	**8,746,219**	-	**8,461,346**
PSP Pharma Ltd *	265,935		559,479		728,073	
New Hospitals Ltd *	3,847		28,674		-	
Aksa Medical Ltd *	-		140		-	

* Connected parties represent companies subject to the general control.

19. Post-balance events

After the reporting period no events occurred needing drawing up the explanatory notes.

Translator: /M. Benidze/

სანოტარო მოქმედების რეგისტრაციის ნომერი	N170643689
სანოტარო მოქმედების რეგისტრაციის თარიღი	12.06.2017 წ
სანოტარო მოქმედების დასახელება	**დოკუმენტის თარგმანზე დიპლომირებული მთარგმნელის ხელმოწერის დამოწმება**
ნოტარიუსი	**მერაბ ფარჯიკია**
სანოტარო ბიუროს მისამართი	**ქ. თბილისი ვ/ფშაველას 41**
სანოტარო ბიუროს ტელეფონი	**მობილური 591 709 989 599 19 64 09**
სანოტარო მოქმედების ინდივიდუალური ნომერი	73325403903817

სანოტარო მოქმედებისა და სანოტარო აქტის შესახებ ინფორმაციის (მისი შექმნის, შეცვლის და/ან გაუქმების შესახებ) მიღება–გადამოწმება შეგიძლიათ საქართველოს ნოტარიუსთა პალატის ვებ–გვერდზე: **www.notary.ge** ასევე შეგიძლიათ დარეკოთ ტელეფონზე: **+995(32) 2 66 19 18**

სანოტარო აქტი
საქართველო

ორიათასჩვიდმეტი წლის ---12. 06.--- მე ნოტარიუს მერაბ ფარჯიკიას შემცვლელ პირს ელისო მურღულიას, ჩემს სანოტარო ბიუროში, რომელიც მდებარეობს ქ. თბილისში, ვაჟა-ფშაველას 41-ში, მომმართა მარინა ბენიძემ, რომელმაც წარმოადგინა წინამდებარე დოკუმენტის თარგმანი ქართული ენიდან ინგლისურ ენაზე. აღნიშნული დოკუმენტი თარგმნა მარინა ბენიძემ, (დაბადებული 9/07/1971. ქ. თბილისი, პ/მ № ბ 0171091. პირადი № 01009009365 გაც. 25.08.1997 თბილისის ვაკის რაიონის შს სამმართველოს მიერ, ამჟამად მცხოვრები: თბილისი, ვ. ფშაველას 45, კორპ. 23, ბ.8) მე, შევამოწმე მისი ქმედუნარიანობა და უფლებამოსილება. (ქ. თბილისი, საქართველოს ტექნიკური უნივერსიტეტის კავშირგაბმულობის ფაკულტეტი, დიპლომი დუ № 003641 კავშირგაბმულობის სპეციალობით 2004წ. კი დაამთავრა კავკასიის ბიზნესის სკოლა ინგლისურ ენაზე (ფინანსები), აქვს ბრიტანეთის საბჭოს მიერ გაცემული ინგლისური ენის უმაღლეს დონეზე ფლობის სერტიფიკატი. მე, მერაბ ფარჯიკიამ გავაფრთხილე, რომ პასუხს აგებს თარგმნის სიზუსტეზე. გადახდილია სანოტარო მოქმედებათა შესრულებისათვის ნოტარიუსის საზღაურის შესახებ საქართველოს მთავრობის 2011 წლის 29 დეკემბრის №507-ე დადგენილების 31-ე მუხლის თანახმად ---70--- ლარი + 2 (ორი) ლარი სანოტარო მოქმედების ელექტრონულ სანოტარო რეესტრში რეგისტრაციის საფასური, თანახმად "სანოტარო მოქმედებათა შესრულებისთვის საზღაურის შესახებ" საქ. კანონის 39-ე მუხლისა + ასევე საქართველოს საგადასახადო კოდექსის 169-ე მუხლისა დღგ 18 % 12.60 - ლარი.

ნოტარიუსის შემცვლელი პირი ელისო მურღულია

Notary act
Georgia

Two thousand and seventeen ---12. 06.---I, the notary Merab Parjikia's replacing person Eliso Murgulia, at my notary bureau located at Tbilisi, Vazha-Pshavela 41 was addressed by Marina Benidze, who presented the translation of the following document from Georgian into English. The mentioned document was translated by Marina Benidze (born on 9/07/71, city Tbilisi, id B 0171091, pn. # 01009009365 issued by Vake's Service of Civil Registry Agency , city of Tbilisi on 25/08/1997, residing at: Tbilisi, V. Pshavela 45, blg. 23, ap.8). I checked her capacity and competence. (Tbilisi city, the Tbilisi Technical University of Georgia, faculty of telecommunications , diploma DF № 003641. In 2004 she graduated from Caucasus school of business, MBA pr. on Finance (in English), she has also the British Council Georgia's certificate, certifying her upper intermediate level of knowledge of English. I have notified Marina Benidze that she is responsible for an accurate translation. She confirmed that she knows the corresponding language well and ensures the accuracy of the translation. . Paid by tariff according to article 31 of the Georgian government Resolution #507 of December 29, 2011 concerning the notary services payment 70 ------ GEL + 2 GEL fee for registration in electronic registry, according to article 39 of the Georgian Law "On the notary services payment"+ and according to article 169 of the Georgian Tax code VAT 18% 12.60 GEL.

Notary replacing person Eliso Murgulia