JSC Insurance Company GPI Holding

Separate Financial Statements
for the year ended 31 December 2015

prepared in accordance with
International Financial Reporting Standards
Issued by IASB as adopted by the European Union

and

Independent Auditors' Report

Contents

Statement of Management’s Responsibilities	3
Independent Auditors’ Report	4
Separate Statement of Financial Position	5
Separate Statement of Profit or Loss and Other Comprehensive Income	6
Separate Statement of Cash Flows	7
Separate Statement of Changes in Equity	8
Notes to the Separate Financial Statements	9

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Management of JSC Insurance Company GPI Holding (the "Company") is responsible for the accompanying separate financial statements presented on pages 5 to 35.

This responsibility includes:

- preparation of separate financial statements in accordance with International Financial Reporting Standards issued by IASB, as adopted by the European Union;
- selection of suitable accounting policies and their consistent application;
- making judgments and estimates which are reasonable and prudent;
- preparation of the separate financial statements on the going concern basis, unless circumstances make this inappropriate.

Management is also responsible for:

- creation, implementation and maintaining effective accounting and internal control systems;
- keeping proper accounting records in compliance with local regulations;
- taking such steps as are reasonably open to them to safeguard the assets of the Company, and
- prevention and detection of fraud and other irregularities.

The separate financial statements for the year ended 31 December 2015 were approved by the management and signed on its behalf by:

Paata Lomadze
General Director
JSC Insurance Company GPI Holding

Levan Zuroshvili
Chief Financial Officer
JSC Insurance Company GPI Holding

Date:

KPMG Georgia LLC
4, Besiki Street,
Tbilisi, 0108,
Georgia

Telephone +995 (32) 2935695
Fax +995 (32) 2935713
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory Board of
JSC Insurance Company GPI Holding

We have audited the accompanying separate financial statements of JSC Insurance Company GPI Holding (the "Company"), which comprise the separate statement of financial position as at 31 December 2015, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Andrew Coxshall
Managing Partner

KPMG Georgia LLC

KPMG Georgia LLC
24 February 2016

LIMITED LIABILITY COMPANY 404437696 KPMG Georgia

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

	Note	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Property and equipment	6	1 608	2 078
Intangible assets		1 555	596
Investment property	7	2 966	2 942
Investments in subsidiaries	8	13 580	13 580
Bank deposits	24	15 537	13 833
Loans receivable	25	1 133	7 970
Reinsurance assets	9	13 697	16 495
Insurance receivables	10	33 130	29 285
Deferred acquisition costs	11	6 517	5 002
Prepayments and other receivables	12	7 181	5 158
Cash and cash equivalents	13	7 008	3 762
Inventory		10	46
Total assets		**103 922**	**100 747**
Equity			
Ordinary shares	14	12 232	12 232
Share premium		126	126
Retained earnings		17 460	21 589
Total equity		**29 818**	**33 947**
Liabilities			
Insurance contract liabilities	15		
Premium provision		35 324	33 789
Outstanding claims		10 547	13 101
Insurance and reinsurance payables	16	12 772	8 917
Investment contract liabilities	17	5 242	4 108
Trade and other payables	18	10 022	6 745
Deferred tax liabilities	5	197	140
Total liabilities		**74 104**	**66 800**
Total equity and liabilities		**103 922**	**100 747**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: February 24, 2016

The notes set out on pages 9 to 35 form an integral part of the separate financial statements.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

	Note	2015 GEL'000	2014 GEL'000
Income			
Gross premiums		71 009	77 168
Less: Reinsurers' share of gross premiums		(17 127)	(18 387)
Net premiums		53 882	58 781
Net change in unearned premiums provision		(3 285)	5 846
Net premiums earned	19	**50 597**	**64 627**
Fees and commission income		5 512	5 413
Investment income	20	4 958	1 935
Total income		**61 067**	**71 975**
Expenses			
Gross benefits and claims paid	15	(52 519)	(49 093)
Reinsurance share of gross benefits and claims paid	9	17 820	2 527
Gross change in outstanding claims	15	2 554	(5 342)
Change in reinsurers' share in outstanding claims	9	(1 048)	3 977
Net benefits and claims		**(33 193)**	**(47 931)**
Interest expense		(250)	(223)
Direct acquisition fees and commissions		(7 353)	(4 994)
Other acquisition expenses	21	(9 148)	(8 675)
Change in deferred acquisition costs	11	1 515	800
Other operating and administrative expenses	22	(5 379)	(4 241)
Total expenses		**(53 808)**	**(65 264)**
Profit before income tax		7 259	6 711
Income tax expense	23	(1 190)	(1 079)
Profit and total comprehensive income for the year		**6 069**	**5 632**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: February 24, 2016

The notes set out on pages 9 to 35 form an integral part of the separate financial statements.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

	Note	2015 GEL'000	2014 GEL'000
Cash flow from operating activities			
Profit for the year		6 069	5 632
Adjustments for:			
Depreciation and amortization		649	568
Interest income		(1 590)	(1 174)
Interest expense		250	223
Income tax expense		1 190	1 079
Change in deferred acquisition costs		(1 515)	(800)
		5 053	5 528
Changes in operating assets and liabilities:			
Change in premium reserves, net of reinsurance		3 285	(5 846)
Change in outstanding claims, net of reinsurance		(1 506)	1 366
Change in insurance receivables		(3 845)	2 251
Change in other receivables		(1 768)	(1 416)
Change in other liabilities and investment contract liabilities		7 740	8 731
Change in bank deposits		(1 704)	(2 543)
		7 255	8 071
Income tax paid		(1 106)	(2 320)
Interest received		1 666	994
Net cash from operating activities		**7 815**	**6 745**
Cash flow from investing activities			
Purchase of property and equipment and intangible assets		(1 162)	(710)
Loans granted		(96)	(7 629)
Loans receivable repaid		6 629	-
Net cash used in investing activities		**5 371**	**(8 339)**
Cash flow from financing activities			
Dividend paid		(9 940)	-
Net cash used in financing activities		**(9 940)**	-
		-	
Increase/(decrease) in cash and cash equivalents		**3 246**	**(1 594)**
Cash and cash equivalents at the beginning of the year		3 762	5 356
Cash and cash equivalents at the end of the year	13	**7 008**	**3 762**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: February 24, 2016

The notes set out on pages 9 to 35 form an integral part of the separate financial statements.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

	Issued and paid-in Capital GEL'000	Share premium GEL'000	Retained Earnings GEL'000	Total equity GEL'000
Balance as of January 1, 2014	6 824	126	21 365	**28 315**
Transactions with owners, Recorded directly in equity				
Dividend Distribution	-	-	(5 408)	**(5 408)**
Issuance of shares	5 408	-		**5 408**
Total comprehensive income for the year				
Profit for the year	-	-	5 632	**5 632**
Balance as of December 31, 2014	**12 232**	**126**	**21 589**	**33 947**
Balance as of January 1, 2015	12 232	126	21 589	**33 947**
Transactions with owners, Recorded directly in equity				
Dividend Distribution	-	-	(10 198)	**(10 198)**
Total comprehensive income for the year				
Profit for the year	-	-	6 069	**6 069**
Balance as of December 31, 2015	**12 232**	**126**	**17 460**	**29 818**

Paata Lomadze
General Director

Levan Zuroshvili
Chief Financial Officer

Date: February 24, 2016

The notes set out on pages 9 to 35 form an integral part of the separate financial statements.

NOTE 1. Organisation and operations

JSC Insurance Company GPI Holding ("the Company" or "GPIH') was incorporated in Georgia in 2001. The Company is licensed to provide insurance services in Georgia. The Company is also managing private pension funds in Georgia. As of December 31, 2015 90% of the ordinary shares are held by GPIH B.V. and 10% are held by Soft International Georgia LLC. The Company's registered office is in 67 M. Kostava, Tbilisi, Georgia.

The Company's intermediate parent is VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna ("VIG"). The Company is ultimately controlled by Wiener Stadtische Wechselseitiger Versicherungsverein – Vermogensverwaltung – Vienna Insurance Group, Vienna.

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

NOTE 2. Basis of preparation

A. Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by IASB as adopted by the European Union (EU IFRS).

The Company does not prepare consolidated financial statements based on IFRS 10 *Consolidated Financial Statements* as the Company itself is a partially-owned subsidiary of another entity and its other owners have been informed about, and do not object to, the Company not preparing consolidated financial statements; the Company's debt or equity instruments are not traded in a public market; the Company did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; the intermediate parent VIG produces consolidated financial statements available for public use that comply with EU IFRS.

The consolidated financial statements of VIG can be obtained from the VIG Group web site www.vig.com.

B. Basis of measurement

The separate financial statements are prepared on the historical cost basis.

C. Functional and Presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these separate financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousands, except when otherwise indicated.

D. Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- Note 4 (C) – Concentration of insurance risk ; and
- Note 15 – Insurance contract provisions.

NOTE 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

A. Investments in subsidiaries and associates

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investments in subsidiaries are accounted at cost in the separate financial statements from the date that control effectively commences until the date that control effectively ceases.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Investments in subsidiaries and associates are accounted at cost less impairment losses.

B. Foreign currency transactions

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

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

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

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

C. Insurance contracts

(i) Classification of contracts

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

Insurance risk is risk other than financial risk.

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

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

Financial guarantee contracts are accounted for as insurance contracts.

(ii) Recognition and measurement of contracts

Premiums

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

Policy cancellations

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

Unearned premium provision

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

Claims

Net benefits and claims comprise claims paid during the financial year, net of subrogation recoveries and together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but not settled at the statement of financial position date, whether reported or not.

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

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

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

(iii) Reinsurance

The Company cedes reinsurance in the normal course of business with retention limits varying by line of business. The reinsurers' shares in insurance liabilities and outstanding claims are presented separately in the statement of financial position, net of an allowance for credit losses, according to the estimates of management.

Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

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

(iv) Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DAC for general insurance and health products are amortised over the period in which the related revenues are earned.

(v) Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets for each line of business which are managed together. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified the related deferred acquisition cost is written down and, if necessary, an additional provision (unexpired risk provision) is established. The deficiency is recognised in profit or loss for the year.

(vi) Insurance receivables

Receivables arising from insurance contracts are classified as receivables and are reviewed for impairment as part of the impairment review of receivables.

Specifically, insurance receivables are recognised when the policy is issued and measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment on a specific basis and collectively for balances where there is no specific assessment, whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

D. Cash and cash equivalents

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

E. Financial instruments

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

The Company initially recognises loans and receivables, bank deposits and cash and cash equivalents on the date that they are originated.

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

Loans and receivables category comprises the following classes of financial assets:

- Insurance receivables as presented in note 10; and
- Subrogation receivable as presented in note 12;

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

Other financial liabilities comprise loans and borrowings, bank overdrafts, and insurance and reinsurance payables.

(ii) Non-derivative financial assets and financial liabilities - derecognition

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

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

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

(iv) Gains and losses on subsequent measurement

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

F. Property and equipment

Property and equipment, which do not qualify as investment property, are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any impairment. Land is not depreciated.

The initial cost of property and equipment includes directly attributable costs of bringing the asset to its working condition for its intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

- Buildings 25-50 years
- Computers and related equipment 3- 5 years
- Motor vehicles 2-7 years
- Office furniture and equipment 7-10 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits from the use of the asset are expected. Any gain or loss arising on de-recognition of the asset is included in profit or loss in the year the asset is derecognized.

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

G. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. These include properties with currently undetermined future use. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any impairment. Land is not depreciated.

The estimated useful life of building for the current and comparative periods is 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

H. Impairment

(i) Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and receivables ("loans and receivables"). The Company reviews its loans and receivables, to assess impairment on a regular basis. A loan and receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and receivable and that event (or events) has had an impact on the estimated future cash flows of the loan and receivable that can be reliably estimated.

The Company considers evidence of impairment for loans and receivables at both an individual asset and a collective level. The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the loan and receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's and receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

I. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

.

J. Taxation

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

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

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

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

K. Interest income and expenses and fee and commission income

Interest income and expense are recognised in profit or loss as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan arrangement fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fee and commission income is recognised when the corresponding service is provided.

L. New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these separate financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its separate financial statements resulting from the application of IFRS 9. The Standard has not yet been endorsed in the European Union.

- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its separate financial statements resulting from the application of IFRS 15. The Standard has not yet been endorsed in the European Union.

- IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

  Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

  IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Standard has not yet been endorsed in the European Union.

NOTE 4. Insurance risk management

A. Risk management objectives and policies for mitigating insurance risk

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

Risks under non-life insurance policies usually cover twelve month duration. For general insurance contracts the most significant risks arise from changes in the relevant legal environment, changes in behaviour of policyholders, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from epidemics, natural disasters and increases in health care costs.

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

(i) Underwriting strategy

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

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

Adherence to the underwriting guidelines is monitored by management on an on-going basis.

Strict claim review policies to assess all new and on-going claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and processes put in place to reduce claims. Where appropriate, the Company further enforces a policy of actively managing and promoting pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has also limited its exposure by imposing maximum claim amounts on certain contracts.

(ii) Reinsurance strategy

In order to reduce the insurance risks the Company utilises a reinsurance program. The majority of reinsurance business ceded is placed on a proportional and quota share/excess of loss basis with retention limits varying by product line (for all significant risks in all business lines the Company writes business only with facultative cover with no significant retention).

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations under such reinsurance agreements. Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each year end, management performs an assessment of creditworthiness of reinsurers to update reinsurance purchase strategy and ascertaining suitable allowance for impairment of reinsurance assets.

B. Terms and conditions of insurance contracts and nature of risks covered

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

(i) Medical insurance

Product features

The largest part of the Company's insurance portfolio relates to medical insurance. These contracts pay benefits for medical treatment and hospital expenses. This make up approximately 51% of the total insurance business respectively in terms of net earned premiums of the Company. The portfolio consists predominantly of collective corporate policies as at 31 December 2015.

Management of risk

Health insurance cover is subject to the primary peril of the need for a medical treatment. The Company manages its risks through writing predominantly corporate policies and through the use of medical screening so that pricing considers current health conditions. Besides, the Company uses the services of its subsidiary company clinics and pharmacies based on pre-agreed prices.

(ii) Motor insurance

Product features

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

Management of risk

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

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

(iii) Property insurance

Property product features

The Company writes property insurance. This includes both private property insurance and industrial property insurance. Property insurance indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property.

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

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. For private property insurance, it is expected that there will be large numbers of properties with similar risk profiles. However, for commercial business this may not be the case. Many commercial property proposals comprise a unique combination of location, type of business and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

These risks are managed primarily through the pricing and reinsurance processes.

C. Concentrations of insurance risk

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

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

The tables below set out the concentration of insurance contract liabilities (including liabilities for unexpired risk and for outstanding claims) by type of contract:

December 31, 2015

	Gross			Reinsurance share			Net		
	Unearned premium provision	Out-standing claims	Total	Unearned premium provision	Out-standing claims	Total	Unearned premium provision	Out-standing claims	Total
	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000
Motor	6 634	1 217	7 851	47	1	48	6 587	1 216	7 803
Marine & cargo	192	314	506	75	199	274	117	115	232
Property	6 372	623	6 995	5 155	531	5 686	1 217	92	1 309
Medical	11 889	1 586	13 475	26	-	26	11 863	1 586	13 449
Credit Insurance	6 405	1 190	7 595	-	768	768	6 405	422	6 827
Agro	14	4 223	4 237	10	3 879	3 889	4	344	348
Other	3 818	1 394	5 212	2 091	915	3 006	1 727	479	2 206
Total	**35 324**	**10 547**	**45 871**	**7 404**	**6 293**	**13 697**	**27 920**	**4 254**	**32 174**

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

December 31, 2014

	Gross			Reinsurance share			Net		
	Unearned premium provision	Out-standing claims	Total	Unearned premium provision	Out-standing claims	Total	Unearned premium provision	Out-standing claims	Total
	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000	GEL'000
Motor	5 697	992	6 689	35	- -	35	5 662	992	6 654
Marine & cargo	193	186	379	78	119	197	115	67	182
Property	5 768	845	6 613	4 447	792	5 239	1 321	53	1 374
Medical	9 618	3 559	13 177	26	-	26	9 592	3 559	13 151
Credit Insurance	5 006	860	5 866	-	423	423	5 006	437	5 443
Agro	4 759	1 620	6 379	3 368	1 479	4 847	1 391	141	1 532
Other	2 748	5 039	7 787	1 200	4 528	5 728	1 548	511	2 059
Total	**33 789**	**13 101**	**46 890**	**9 154**	**7 341**	**16 495**	**24 635**	**5 760**	**30 395**

Key assumptions in estimating outstanding claims

The principal assumptions underlying the estimates relate to how the Company's future claims development experience will differ, if at all, from the past claims development experience. This includes, for each accident period, assumptions in respect of average claim costs, claim handling costs, claim inflation factors, number of claims and delays between the claim events, claim reporting and claim settlement. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other assumptions include variation in interest rates and changes in foreign currency rates.

Sensitivities

Management believes that, due to the short-tailed nature of the Company's business, the performance of the Company's portfolio is sensitive mainly to changes in expected loss ratios. The Company adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account.

D. Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Company. The table compares the claims paid on an accident year basis with the provisions established for these claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2015 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

Analysis of claims development (gross) – Total

	Accident year					
	2011	2012	2013	2014	2015	Total
Estimate of cumulative claims						**GEL'000**
Accident year	40 720	50 581	63 195	53 615	47 980	**374 494**
One year later	40 816	49 493	64 084	56 374		
Two years later	40 816	49 424	63 380			
Three years later	40 816	49 354				
Four years later	40 816					
Current estimate of incurred claims	40 816	49 354	63 380	56 374	47 980	**373 677**
Cumulative payments to date	40 816	49 269	63 126	54 586	39 560	**363 130**
Gross outstanding claims liabilities	-	85	254	1 788	8 420	**10 547**

NOTE 5. Deferred tax

(a) Recognized deferred tax assets and liabilities

	31-Dec-15	31-Dec-14
	GEL'000	GEL'000
Components of deferred tax		
Property and equipment and intangible assets	(21)	(56)
Insurance receivables	478	362
Other receivables, net	409	325
Deferred acquisition costs	(912)	(560)
Other payables	(151)	(211)
	(197)	**(140)**

(b) Movement in temporary differences during the year

	2015	2014
	GEL'000	GEL'000
At the beginning of the year	(140)	(149)
Income statement benefit (charge)	(57)	9
At the end of the year	**(197)**	**(140)**

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 6. Property and equipment

GEL'000	Land and buildings	Computers and related equipment	Motor vehicles	Office furniture and equipment	Total
Cost					
January 1, 2015	1 812	1 563	328	1 105	4 808
Additions	27	142	-	75	244
Disposals	-	-	-	(179)	(179)
December 31, 2015	1 839	1 705	328	1 001	4 873
Accumulated depreciation					
January 1, 2015	668	1 137	194	731	2 730
Charge for the year	189	164	54	128	535
December 31, 2015	857	1 301	248	859	3 265
Net book value					
December 31, 2015	**982**	**404**	**80**	**142**	**1 608**
Cost					
January 1, 2014	1 812	1 412	331	1 075	4 630
Additions	-	157	23	37	217
Disposals	-	(6)	(26)	(7)	(39)
December 31, 2014	1 812	1 563	328	1 105	4 808
Accumulated depreciation					
January 1, 2014	479	974	153	598	2 204
Charge for the year	189	169	55	139	552
Disposals	-	(6)	(14)	(6)	(26)
December 31, 2014	668	1 137	194	731	2730
Net book value					
December 31, 2014	**1 144**	**426**	**134**	**374**	**2 078**

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 7. Investment property

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
At January 1	2 942	2 942
Additions	24	-
At December 31	**2 966**	**2 942**

Management estimates that the fair value of the land approximates to its carrying amount. The fair value is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments to observable inputs to the valuation technique used. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties.

During 2015 and 2014 there is no rental income recognized in relation to investment property.

NOTE 8. Investments in subsidiaries

	Activity	31-Dec-15 GEL'000	Ownership %	31-Dec-14 GEL'000	Ownership %
Medical Concern Curatio JSC	Medical services	680	100	680	100
Geo Hospitals LLC	Hospitals	10 400	65	10 400	65
Public Pharmacy LLC	Pharmacy	2 500	50	2 500	50
		13 580		**13 580**	

All of the subsidiaries' principal place of business and country of incorporation is Georgia.

NOTE 9. Reinsurance assets

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Provision for unearned premiums – reinsurance (*)	7 404	9 154
Provision for outstanding claims – reinsurance (**)	6 293	7 341
	13 697	**16 495**

(*) Movement in provision for unearned premiums – reinsurance	2015 GEL'000	2014 GEL'000
Balance at January 1	**9 154**	**5 147**
Reinsurance premium written in the year	17 127	18 387
Premiums earned during the year	(18 877)	(14 380)
Balance at December 31	**7 404**	**9 154**

(**) Movement in provision for outstanding claims – reinsurance	2015 GEL'000	2014 GEL'000
Balance at January 1	**7 341**	**3 364**
Claims incurred in the current accident year	16 772	6 504
Claims paid during the year	(17 820)	(2 527)
Balance at December 31	**6 293**	**7 341**

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 10. Insurance receivables

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Due from policyholders	36 313	31 701
Impairment allowance for insurance receivables	(3 183)	(2 416)
	33 130	**29 285**

NOTE 11. Deferred acquisition costs (DAC)

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Balance at January 1	5 002	4 202
Change in deferred acquisition cost	1 515	800
Balance at December 31	**6 517**	**5 002**

NOTE 12. Prepayments and other receivables

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Receivables from subrogation	4 446	3 532
Advances to subsidiaries and other counterparties	2 627	1 302
Government agencies	-	132
Other receivables	108	192
	7 181	**5 158**

NOTE 13. Cash and cash equivalents

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Cash on hand	41	35
Cash in banks (largest 10 Georgian banks)	6 967	3 727
	7 008	**3 762**

NOTE 14. Ordinary shares

The authorized and paid-in share capital of the Company is specified below. Each share entitles the holder to one vote in the shareholders meetings of the Company.

Authorized, Issued and paid-in capital	**December 31, 2015**		**December 31, 2014**	
	Number of shares	**Par Value GEL '000**	**Number of shares**	**Par Value GEL '000**
Ordinary shares	1 500	12 232	1 500	12 232

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

In 2015, the Company declared dividends of GEL 10 198 thousand, out of which GEL 9 940 thousand was paid. The remaining balance was settled on a non-cash basis with the shareholders (note 25).

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 15. Insurance contract liabilities

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Non-life contracts:		
Unearned premium provision	35 324	33 789
Reported but not settled claims (RBNS)	9 618	11 756
Incurred but not reported claims (IBNR)	929	1 345
	45 871	**46 890**

THE METHODS FOR DETERMINING VARIOUS TYPES OF INSURANCE LIABILITIES

Unearned premium provision

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

Provision for outstanding claims

Valuation of the outstanding claims:

Outstanding claims reserves consist of Reported but not settled (RBNS) claims and Incurred but not reported (IBNR) claims reserves.

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

IBNR claims reserve is calculated by actuaries.

The Company uses actuarial methods in calculating IBNR. The methods used for calculation of IBNR reserve include actuarial methods such as the chain ladder and the average payment per claim method, or in some cases, the expected loss ratio method is applied in order to ensure reasonable estimations when the statistical method fails. The actuaries carry out estimations using data regarding claims payments, numbers of claims reported and case-reserves. See below for more details.

The assumptions and models used for determining the provisions

For the purpose of valuing outstanding claims, or supplementing the claims departments' per-claim case reserves for IBNR, the actuarial models detailed below have been used in conjunction with various assumptions:

- <u>Chain ladder:</u> this method is based on the development of historical claims (development of payments and/or development of amount of claims, development of the number of claims, etc.), in order to evaluate the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period since the event occurred or the policy is written, when there is enough information from the existing claims in order to evaluate the total anticipated claims.

- <u>Bornhuetter-Ferguson (or modified version thereof):</u> this method combines early estimates known in the Company or class of business, and additional estimates based on the claims themselves. The early estimates utilize premiums and the loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weights the two estimates while a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or for a new business or one with insufficient historical information.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

- The average payment per claim: at times, as in the Bornhuetter-Ferguson method, when the claims experience is insufficient, the historical average method is utilized. In this method the provision is calculated based on the forecast of the number of claims (chain ladder method) and historical average claim size.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future with changes based on trends in claim frequency and severity due to changes in regulations, policy conditions, customer mix and so on. All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute.

Liability adequacy tests are carried out by the Company as follows:

a) For most of the liability (e.g. in respect of motor and health business) for outstanding claims net of recoverable reinsurance, subrogation and salvage, an actuarial analysis is carried out in order to determine that the recorded liability (net of relevant assets) is adequate based on the current best estimates of future claims development. If the liabilities are not adequate they are increased through profit or loss.

b) For the liability for unexpired risks (the unearned premium reserve net of DAC) an actuarial estimate is carried out of the expected future loss ratio in respect of unexpired risks on in-force contracts. If the expected loss ratio implies that the unearned premium provision net of DAC is inadequate, the DAC is reduced, and if necessary the unearned premium reserve is increased, until it is adequate.

The liability adequacy test revealed a shortfall, due to which deferred acquisition costs, with a carrying amount of GEL 196 thousand as at 31 December 2015 were written-off.

MOVEMENT IN OUTSTANDING CLAIMS (GROSS)

	2015 GEL'000	2014 GEL'000
Balance at January 1	13 101	7 759
Expected cost of current year claims (Note 4)	47 980	53 615
Change in estimates in respect of prior year claims	1 985	820
Claims paid during the year	(52 519)	(49 093)
Balance at December 31	**10 547**	**13 101**

MOVEMENT IN UNEARNED PREMIUM RESERVES (GROSS)

	2015 GEL'000	2014 GEL'000
Balance at January 1	33 789	35 628
Premium written in the year	71 009	77 168
Premium earned during the year	(69 474)	(79 007)
Balance at December 31	**35 324**	**33 789**

NOTE 16. Insurance and reinsurance payables

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Reinsurance premium payable	11 112	7 870
Reinsurance regress payable	1 660	1 047
	12 772	**8 917**

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 17. Investment contract liabilities

	31-Dec-15	31-Dec-14
Number of registered participants		
• In the voluntary funds	11 881	11 662
Total assets under management (GEL'000)	**5 242**	**4 108**

Participants have a right to call their investments on demand. Participants receive income based on the average yield of term deposits of the Company.

NOTE 18. Trade and other payables

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Commission payable	6 970	3 674
Employees and other salary-related liabilities	1 001	700
Premiums received in advance	480	485
Other liabilities	1 571	1 886
	10 022	**6 745**

NOTE 19. Net premiums earned

	2015 GEL'000	2014 GEL'000
Gross premiums on non-life insurance contracts		
Total gross premiums	71 009	77 168
Reinsurers' share of gross premiums on insurance contracts		
Total reinsurers' share of gross premiums	(17 127)	(18 387)
Change in unearned premiums provision		
Gross	(1 535)	1 839
Reinsurance	(1 750)	4 007
Net	(3 285)	5 846
Total net premiums earned	**50 597**	**64 627**

NOTE 20. Investment income

	2015 GEL'000	2014 GEL'000
Foreign currency translation	2 842	(124)
(Loss)/gain on currency forward contract	(850)	452
Bank deposit interest income	1 163	850
Loans receivable interest income	427	324
Rental income	36	19
Other	1,340	414
	4 958	**1 935**

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 21. Other acquisition expenses

	2015 GEL'000	2014 GEL'000
Salaries	5 925	5 599
Marketing expenses	1 776	1 850
Office expenses	779	757
Depreciation	354	264
Business trips	31	41
Others	283	164
	9 148	**8 675**

NOTE 22. Other operating and administrative expenses

	2015 GEL'000	2014 GEL'000
Wages and salaries	2 487	2 391
Salary taxes and other employee benefits	829	797
Depreciation and amortization	225	216
Other	1 838	837
	5 379	**4 241**

NOTE 23. Income tax expense

	2015 GEL'000	2014 GEL'000
Current income tax expense	1 133	1 088
Origination and reversal of temporary differences	57	(9)
Total income tax expenses	**1 190**	**1 079**

The Company's applicable tax rate is the corporate income tax rate of 15% (2014: 15%).

Reconciliation of effective tax rate:	2015 GEL'000	2014 GEL'000
Profit before tax	7 259	6 711
Income tax at the applicable tax rate	1 089	1 007
Net non-deductible expenses/(non-taxable income)	101	72
	1 190	**1 079**

NOTE 24. Financial instruments and risk management

A. Governance framework

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

The Supervisory Board of the Company has overall responsibility for the oversight of the risk management framework. The Management of the Company is responsible for the management of key risks, designing and implementing risk management and control procedures as well as approving large exposures.

B. Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks of natural disasters. Regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimize the risk of default and insolvency on the insurance companies to meet unforeseen liabilities as these arise.

C. Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risks that the Company faces due to the nature of its investments and liabilities are currency risk, credit risk, interest rate risk and insurance risk. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

D. Financial risks

The major risks faced by the Company from its use of financial instruments are those related to market risk (which includes interest rate and currency risks), credit risk and liquidity risk.

(a) Credit risk

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

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segment (i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the Supervisory Board and are subject to regular reviews. Reinsurance counterparties are approved by the Company's senior management. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings.

- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

Credit exposure

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

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
Bank deposits (largest 10 Georgian banks)	15 537	13 833
Loans receivable	1 133	7 970
Reinsurance assets (rated at least BBB from Standard & Poor's)	13 697	16 495
Insurance receivables	33 130	29 285
Subrogation receivables	4 446	3 532
Cash and cash equivalents (largest 10 Georgian banks) (note 13)	7 008	3 762
Total credit risk exposure	**74 951**	**74 877**

The aging of insurance receivables at the reporting date was:

GEL'000	Gross 2015	Impairment 2015	Gross 2014	Impairment 2014
Not past due	30 497	-	28 392	-
Past due 0-90 days	2 203	-	604	-
Past due 91-180 days	289	27	263	121
Past due 181-270 days	159	47	128	38
Past due 271-365 days	111	55	114	57
Past due more than one year	3 054	3 054	2 200	2 200
	36 313	**3 183**	**31 701**	**2 416**

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

The Company has also issued financial guarantees to its subsidiary (see Note 27.C).

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- Liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contracts obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

Maturity profiles

The Company uses maturity tables in managing its liquidity risk. The Company's all financial liabilities are contractually due to be settled during the six month period after the reporting date. Management estimates that the timing of cash outflows from insurance contract liabilities does not exceed one year.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

(c) Market risk

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

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

(i) Currency risk

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

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

As part of its risk management, the Company uses foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Accordingly, at the start of each financial year, the Company concludes the agreement and hedged its EURO OCP with the nominal value of EUR 3,000 thousand, with an effective date of 31 December of each financial year.

The following table shows the foreign currency structure of monetary assets and liabilities and insurance contract assets and liabilities at December 31, 2015 and 2014:

	USD GEL'000	EUR GEL'000
Bank deposits	-	8 114
Reinsurance assets	1 539	125
Insurance receivables	15 243	450
Prepayments and other receivables	3 450	11
Cash and cash equivalents	264	25
Total assets	**20 496**	**8 725**
Liabilities		
Insurance contracts liabilities	3 007	150
Insurance and reinsurance payables	2 806	-
Investment contract liabilities	3 299	74
Trade and other payables	863	115
Total liabilities	**9 975**	**339**
Net position as at December 31, 2015	**10 521**	**8 386**
Net position as at December 31, 2014	**4 795**	**6 545**

An analysis of sensitivity of the Company's profit for the year and equity to changes in the foreign currency exchange rates based on positions existing as at December 31, 2015 and 2014 and a simplified scenario of a 10% change in USD and Euro to GEL exchange rate is as follows:

	31-Dec-15 GEL'000	31-Dec-14 GEL'000
10% appreciation of USD against GEL	894	408
10% depreciation of USD against GEL	(894)	(408)
10% appreciation of EUR against GEL	713	556
10% depreciation of EUR against GEL	(713)	(556)

(ii) Interest rate risk

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

The Company does not have floating rate interest bearing instruments. Besides, the Company's interest bearing instruments have relatively short maturity. Therefore, management believes that the Company does not have significant exposure to interest rate risk.

E. Capital management

The local insurance regulator has capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins. It is the Company's intention to meet these requirements. The total equity should not be less than GEL 1.5 million and the Company should have in cash and cash equivalents at least 80% of this amount which equals to GEL 1.2 million.

The Company manages its capital requirements by preventing shortfalls between reported and required capital levels on a regular basis. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or inject further capital.

The Company was in compliance with the externally imposed capital requirements during the reported financial periods and no changes were made to its objectives, policies and processes from the previous year for managing capital.

F. Fair value of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 25. Related party transactions and balances

Name	Relationship	Transaction 2015 GEL'000	Outstanding balance 31-12-2015 GEL'000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		3 854	24
Other advance payments		-	7
Rental income		24	-
Public Pharmacy LLC	Subsidiary		
Claims paid		5 084	-
Advance payments for claims		-	1 339
Loan given (secured)		-	266
Interest income		115	96
Geo Hospitals LLC	Subsidiary		
Claims paid		209	69
Loan given (unsecured) *		-	604
Interest income		294	22
GPIH B.V.	Shareholder		
Other receivables		139	-
Soft International Georgia LLC	Shareholder		
Other receivables		119	-
VIG	Ultimate parent		
Reinsurers' share of gross premiums		214	427
Reinsurance share of gross benefits and claims paid		710	-
IRAO	Fellow subsidiary		
Policies written		226	1 929
Claims incurred		3 089	3 691
Income from Insurance software development		68	118
Currency forward agreement (loss)		850	560
Reinsurers' share of gross premiums		133	181
Rental expense		240	24
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurers' share of gross premiums		7 767	-
Reinsurance share of gross benefits and claims paid		9 861	-
Reinsurance payable		-	6 359
Loans to Employees		102	102

* Loans given to Geo Hospitals LLC is in GEL and bears an interest rate of 8%.

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

Name	Relationship	Transaction 2014 GEL'000	Outstanding balance 31-12-2014 GEL'000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		4 584	-
Advance payments for claims		-	307
Other advance payments		-	34
Rental income		18	-
Public Pharmacy LLC	Subsidiary		
Claims paid		3 656	-
Advance payments for claims		-	139
Loan given (secured)		460	419
Interest income		60	-
Geo Hospitals LLC	Subsidiary		
Claims paid		10 579	-
Loan given (unsecured)		7 449	7 449
Interest income		249	-
GPIH B.V.	Shareholder		
Other receivables		-	124
Soft International Georgia LLC	Shareholder		
Other receivables		-	68
VIG	Ultimate parent		
Reinsurers' share of gross premiums		387	546
Reinsurance share of gross benefits and claims paid		26	-
IRAO	Fellow subsidiary		
Policies written		2 365	2 365
Claims incurred		1 315	1 239
Income from Insurance software development		49	49
Currency forward agreement (loss)		452	10
Reinsurers' share of gross premiums		167	167
Rental expense		333	27
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurers' share of gross premiums		3 626	-
Reinsurance share of gross benefits and claims paid		897	-
Reinsurance payable		-	1 613
Loans to Employees		75	-

Amounts are expressed in thousands of Georgian Lari (GEL'000) unless otherwise stated

NOTE 26. Compensation of key management personnel

The remuneration of 5 directors of the Company for the years ended December 31 was as follows:

	2015 GEL'000	2014 GEL'000
Payroll	792	712
Bonuses	520	433
Other benefits	5	5
Total key management personnel compensation	**1 317**	**1 150**

NOTE 27. Contingencies and commitments

A. Legal proceedings

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

B. Taxation contingencies

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

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

C. Debt related commitment

As at 20 December 2015 the Company, together with its related party entities, became a party to the new loan agreement, according to which the Company guaranteed the repayment of the loan, with the carrying amount of EUR 16 399 thousand (2014: EUR 17 087 thousand), if Geo Hospitals LLC fails to meet its obligations, when they fall due.

The amounts of outstanding debt related commitments represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December 2015, no events of default under the agreement occurred and management believes that the probability of any of the counterparties failing to meet their contractual obligations under the agreement is remote. Therefore, no provision was recognised for the arrangement.

NOTE 28. Subsequent events

A. Change in tax legislation

The Government of Georgia has announced its intention to move to the so-called Estonia Model of corporate taxation, which moves the moment of taxation from when taxable profits are earned to when they are distributed. Legislation is being drafted to go before Parliament in next two to three months. The introduction of this legislation could have a significant impact on the corporate tax profit of entities in Georgia. Based on current information, the new system of corporate taxation may not apply to not for profit organizations and the following financial institutions: banks, insurance companies, microfinance organizations, pawnshops. The Government is keen to make the law effective for tax periods starting after July 1, 2016.

* * * *