JSC Insurance Company GPI Holding

Separate Financial Statements

for 2017

Contents

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 7 to 41.

This responsibility includes:

- preparation of separate financial statements in accordance with International Financial Reporting Standards issued by IASB;
- 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 2017 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: 7 March 2018

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Independent Auditors' Report

To the Supervisory Board of JSC Insurance Company GPI Holding

Opinion

We have audited the separate financial statements of JSC Insurance Company GPI Holding (the "Company"), which comprise the separate statement of financial position as at 31 December 2017, 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 significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2017, and its unconsolidated financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the separate financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

- is consistent with the separate financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, 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.

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

Those Charged with Governance is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Andrew Coxshall

KPMG Georgia LLC
Tbilisi, Georgia
7 March, 2018

	Note	31 December 2017 GEL'000	31 December 2016 GEL'000
Property and equipment	12	1,486	1,347
Intangible assets		1,429	1,513
Investment property	13	155	166
Investments in subsidiaries	14	12,768	12,768
Deferred tax asset	11	134	232
Bank deposits	22	20,073	16,223
Loans receivable		492	792
Reinsurance assets	8	17,634	11,350
Insurance receivables	22	34,767	35,072
Deferred acquisition costs		5,062	7,305
Other assets	15	14,841	12,856
Cash and cash equivalents	16	6,412	7,602
Total assets		**115,253**	**107,226**
Equity			
Ordinary shares	17	17,288	12,232
Share premium		126	126
Retained earnings		18,206	18,250
Total equity		**35,620**	**30,608**
Liabilities			
Insurance contract liabilities	7		
Premium provision		37,788	39,014
Outstanding claims		21,766	11,377
Insurance and reinsurance payables	18	8,039	8,098
Investment contract liabilities	19	5,982	5,906
Trade and other payables	20	6,058	12,223
Total liabilities		**79,633**	**76,618**
Total equity and liabilities		**115,253**	**107,226**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 7 March 2018

The notes set out on pages 11 to 41 form an integral part of the separate financial statements.

	Note	2017 GEL'000	2016 GEL'000
Income			
Gross premiums		98,904	87,064
Less: reinsurers' share of gross premiums		(19,580)	(20,246)
Net premiums		**79,324**	**66,818**
Net change in unearned premiums provision		901	(3,601)
Net premiums earned	5	**80,225**	**63,217**
Fees and commission income		4,945	5,780
Investment and other income	6	4,069	4,541
Total income		**89,239**	**73,538**
Expenses			
Gross benefits and claims paid	7	(62,175)	(46,845)
Reinsurance share of gross benefits and claims paid	8	4,967	7,522
Gross change in outstanding claims	7	(10,389)	(830)
Change in reinsurers' share in outstanding claims	8	6,609	(2,436)
Net benefits and claims		**(60,988)**	**(42,589)**
Interest expense		(248)	(263)
Direct acquisition fees and commissions		(1,339)	(8,719)
Other acquisition expenses	9	(13,453)	(11,178)
Change in deferred acquisition costs		(2,243)	788
Other operating and administrative expenses	10	(4,274)	(4,457)
Total expenses		**(82,545)**	**(66,418)**
Profit before income tax		6,694	7,120
Income tax expense	11	(1,682)	(1,170)
Profit and total comprehensive income for the year		**5,012**	**5,950**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 7 March 2018

The notes set out on pages 11 to 41 form an integral part of the separate financial statements.

	Note	2017 GEL'000	2016 GEL'000
Cash flow from operating activities			
Profit for the year		5,012	5,950
Adjustments for:			
Depreciation and amortization		648	792
Impairment loss on investments in subsidiaries		-	812
Gain on disposal of investment property and property and equipment		-	(1,065)
Interest income		(1,710)	(1,479)
Interest expense		248	263
Income tax expense		1,682	1,170
Change in deferred acquisition costs		2,243	(788)
		8,123	**5,655**
Changes in operating assets and liabilities:			
Change in premium reserves, net of reinsurance		(901)	3,601
Change in outstanding claims, net of reinsurance		3,780	3,266
Change in insurance receivables		305	(1,942)
Change in other assets		(2,701)	(2,399)
Change in insurance and reinsurance and trade and other payables and investment contract liabilities		(6,226)	(2,001)
Change in bank deposits		(4,045)	(541)
		(1,665)	**5,639**
Income tax paid		(1,754)	(1,483)
Interest received		1,983	1,314
Net cash (used in)/from operating activities		**(1,436)**	**5,470**
Cash flow from investing activities			
Acquisition of property and equipment and intangible assets		(714)	(605)
Issuance of loans		(539)	(440)
Repayment of loans receivable		783	614
Proceeds from sale of investment property		716	715
Net cash from investing activities		**246**	**284**
Cash flow from financing activities			
Dividend paid		-	(5,160)
Net cash used in financing activities		**-**	**(5,160)**
(Decrease)/increase in cash and cash equivalents		**(1,190)**	**594**
Cash and cash equivalents at the beginning of the year		7,602	7,008
Cash and cash equivalents at the end of the year	16	**6,412**	**7,602**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 7 March 2018

The notes set out on pages 11 to 41 form an integral part of the separate financial statements.

	Issued and paid-in Capital	Share premium	Retained earnings	Total equity
	GEL'000	GEL'000	GEL'000	GEL'000
Balance as at 1 January 2016	12,232	126	17,460	**29,818**
Transactions with owners, recorded directly in equity				
Dividend distribution	-	-	(5,160)	**(5,160)**
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	5,950	**5,950**
Balance as at 31 December 2016	**12,232**	**126**	**18,250**	**30,608**
Balance as at 1 January 2017	12,232	126	18,250	**30,608**
Transactions with owners, recorded directly in equity				
Dividend distribution	-	-	(5,056)	**(5,056)**
Issue of shares (note 17)	5,056	-	-	**5,056**
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	5,012	**5,012**
Balance as at 31 December 2017	**17,288**	**126**	**18,206**	**35,620**

Paata Lomadze

General Director

Levan Zuroshvili

Chief Financial Officer

Date: 7 March 2018

The notes set out on pages 11 to 41 form an integral part of the separate financial statements.

NOTE 1. Reporting entity

A. Georgian business environment

The Company's operations are 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.

B. Organisation and operations

JSC Insurance Company GPI Holding (the "Company" or "GPIH") was incorporated in Georgia in 2001. The Company's registered office is in 67 M. Kostava, Tbilisi, Georgia. The Company is licensed to provide life and non-life insurance services in Georgia. However, Insurance Company GPI Holding JSC only offers insurance services in health, property and other non-life segments. The Company is also managing private pension funds in Georgia.

As at 31 December 2017 and as at the date these separate financial statements were authorised for issue, 90% of the ordinary shares are held by ATBIH GmbH and 10% are held by Soft International Georgia LLC.

As at 31 December 2016 90% of the ordinary shares were held by GPIH B.V. and 10% are held by Soft International Georgia LLC.

As at 31 December 2016, 31 December 2017 and the date these separate financial statements were authorised for issue, 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.

NOTE 2. Basis of accounting

A. Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

In previous years the Company prepared separate financial statements in accordance with IFRS issued by IASB, as adopted by European Union ("EU IFRS"). The Company has assessed, and made a determination that no applicable differences exist between IFRS and EU IFRS which would cause changes to accounting policies or reported amounts.

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.

NOTE 3. Functional and Presentation currency

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

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

NOTE 4. Use of estimates and judgements

The preparation of separate financial statements in conformity with 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. Actual results may differ from those estimates.

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 7 – Insurance contract liabilities; and
- Note 21 (C) – Concentration of insurance risk.

Measurement of fair values

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in note 22 – Financial instruments and risk management.

NOTE 5. Net premiums earned

	2017 GEL'000	2016 GEL'000
Gross premiums on non-life insurance contracts		
Total gross premiums	98,904	87,064
Reinsurers' share of gross premiums on insurance contracts		
Total reinsurers' share of gross premiums	(19,580)	(20,246)
Change in unearned premiums provision		
Gross	1,226	(3,690)
Reinsurance	(325)	89
Net	**901**	**(3,601)**
Net premiums earned	**80,225**	**63,217**

NOTE 6. Investment and other income

	2017 GEL'000	2016 GEL'000
Interest income on bank balances	1,608	1,420
Gain on write-off of reinsurance payables	1,080	-
Net foreign exchange gain	199	2,076
Interest income on loans receivable	102	59
Loss on currency forward contract	(221)	(280)
Rental income	-	40
Gain on disposal of investment property and property and equipment	-	1,065
Impairment loss on investments in subsidiaries	-	(812)
Other	1,361	973
	4,069	**4,541**

NOTE 7. Insurance contract liabilities

	31 December 2017 GEL'000	31 December 2016 GEL'000
Non-life contracts:		
Unearned premium provision	37,788	39,014
Reported but not settled claims (RBNS)	19,767	10,121
Incurred but not reported claims (IBNR)	1,999	1,256
	59,554	**50,391**

A. Movement in outstanding claims (gross)

	2017 GEL'000	2016 GEL'000
Balance at 1 January	11,377	10,547
Expected cost of current year claims (note 21 (D))	75,173	48,885
Change in estimates in respect of prior year claims	(2,609)	(1,210)
Gross benefits and claims paid	(62,175)	(46,845)
Balance at 31 December	**21,766**	**11,377**

B. Movement in unearned premium provision (gross)

	2017 GEL'000	2016 GEL'000
Balance at January 1	39,014	35,324
Premium written in the year	98,904	87,064
Premium earned during the year	(100,130)	(83,374)
Balance at December 31	**37,788**	**39,014**

C. The methods for determining various types of insurance liabilities

(i) Unearned premium provision

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

(ii) Provision for outstanding claims

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

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

IBNR claims reserve is calculated by the Company's actuaries. The ultimate cost of these claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson, 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.

(iii) 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:

- Chain ladder: 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.

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, etc. 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 did not reveal any shortfall as at 31 December 2017.

NOTE 8. Reinsurance assets

	31 December 2017 GEL'000	31 December 2016 GEL'000
Provision for unearned premiums – reinsurance	7,168	7,493
Provision for outstanding claims – reinsurance	10,466	3,857
	17,634	**11,350**

Movement in provision for unearned premiums – reinsurance	**2017** **GEL'000**	**2016** **GEL'000**
Balance at 1 January	**7,493**	**7,404**
Reinsurance premium written in the year	19,580	20,246
Premiums earned during the year	(19,905)	(20,157)
Balance at 31 December	**7,168**	**7,493**

Movement in provision for outstanding claims – reinsurance	**2017** **GEL'000**	**2016** **GEL'000**
Balance at 1 January	**3,857**	**6,293**
Claims incurred in the current accident year	11,576	5,086
Reinsurance share of gross benefits and claims paid	(4,967)	(7,522)
Balance at 31 December	**10,466**	**3,857**

NOTE 9. Other acquisition expenses

	2017 GEL'000	2016 GEL'000
Wages and salaries	8,731	7,475
Marketing expenses	2,928	2,040
Office expenses	962	924
Depreciation	442	408
Business trips	42	34
Others	348	297
	13,453	**11,178**

NOTE 10. Other operating and administrative expenses

	2017 GEL'000	2016 GEL'000
Wages and salaries	3,256	2,962
Depreciation and amortization	92	268
Other	926	1,227
	4,274	**4,457**

NOTE 11. Income taxes

The Company's applicable tax rate is the income tax rate of 15% (2016: 15%).

	2017 GEL'000	2016 GEL'000
Current income tax expense	1,584	1,599
Change in legislation	-	(307)
Origination and reversal of temporary differences	98	(122)
Total income tax expenses	**1,682**	**1,170**

Reconciliation of effective tax rate:	2017 GEL'000	2016 GEL'000
Profit before tax	6,694	7,120
Income tax at the applicable tax rate	1,004	1,068
Change in legislation	-	(307)
Differences between tax and IFRS bases of income and expenses	-	409
Net non-deductible expenses	678	-
	1,682	**1,170**

Movement in temporary differences during the year:

GEL'000	**1 January 2017**	**Recognized in profit or loss**	**31 December 2017**
Investment in subsidiaries	122	-	122
Property and equipment and intangible assets	-	-	-
Insurance receivables	59	(59)	-
Other receivables, net	51	(39)	12
	232	**98**	**134**

GEL'000	**1 January 2016**	**Recognized in profit or loss**	**31 December 2016**
Investment in subsidiaries	**-**	122	122
Property and equipment and intangible assets	(21)	21	-
Insurance receivables	478	(419)	59
Other receivables, net	409	(358)	51
Deferred acquisition costs	(912)	912	-
Other payables	(151)	151	-
	(197)	**429**	**232**

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

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2019 and hence, no deferred income tax assets and liabilities will arise, there on.

Considering that the change in the Georgian Tax Code deferred tax asset of GEL 134 thousand was recognized to the extent that is probable that the Company will generate sufficient taxable profit until 1 January 2019, against which the deductible temporary differences can be utilised.

NOTE 12. Property and equipment

GEL'000	Land and buildings	Computers and related equipment	Motor vehicles	Office furniture and equipment	Total
Cost					
1 January 2017	1,216	1,862	319	1,048	4,445
Additions	-	343	68	82	493
Disposals	-	-	(78)	-	(78)
31 December 2017	**1,216**	**2,205**	**309**	**1,130**	**4,860**
Accumulated depreciation					
1 January 2017	430	1,463	267	938	3,098
Charge for the year	65	176	25	78	344
Disposals	-	-	(68)	-	(68)
31 December 2017	**495**	**1,639**	**224**	**1,016**	**3,374**
Net book value					
31 December 2017	**721**	**566**	**85**	**114**	**1,486**
Cost					
1 January 2016	1,839	1,705	328	1,001	4,873
Additions	32	157	112	155	456
Disposals	(655)	-	(121)	(108)	(884)
31 December 2016	**1,216**	**1,862**	**319**	**1,048**	**4,445**
Accumulated depreciation					
1 January 2016	857	1,301	248	859	3,265
Charge for the year	228	162	44	82	516
Disposals	(655)	-	(25)	(3)	(683)
31 December 2016	**430**	**1,463**	**267**	**938**	**3,098**
Net book value					
31 December 2016	**786**	**399**	**52**	**110**	**1,347**

NOTE 13. Investment property

	31 December 2017 GEL'000	31 December 2016 GEL'000
Balance at 1 January	166	2,966
Disposal	(11)	(2,800)
Balance at 31 December	**155**	**166**

On 19 July 2016, the land plot with the carrying value of GEL 2,800 thousand was sold to the non-related party entity, for the cash consideration of GEL 3,850 thousand.

Management estimates that the fair value of the investment property 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 2017 and 2016 there is no rental income recognized in relation to the investment property.

NOTE 14. Investments in subsidiaries

	Activity	31 December 2017 GEL'000	Ownership %	31 December 2016 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	1,688	50	1,688	50
		12,768		**12,768**	

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

NOTE 15. Other assets

	31 December 2017 GEL'000	31 December 2016 GEL'000
Receivables from subrogation	6,619	5,804
Advances to subsidiaries and other counterparties *	5,402	3,352
Receivable from sale of investment property	2,699	3,548
Others	121	152
	14,841	**12,856**

* Advances to subsidiaries and other counterparties as at 31 December 2017 include advances to the counterparties for the provision of medical services of about GEL 2,830 thousand (31 December 2016: GEL 1,770 thousand)

NOTE 16. Cash and cash equivalents

	31 December 2017 GEL'000	31 December 2016 GEL'000
Cash on hand	61	40
Cash in banks	6,351	7,562
Cash and cash equivalents in the separate statement of financial position and in the separate statement of cash flows	**6,412**	**7,602**

NOTE 17. 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	**31 December 2017**		**31 December 2016**	
	Number of shares	**Par Value GEL'000**	**Number of shares**	**Par Value GEL'000**
Ordinary shares	1,500	17,288	1,500	12,232

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

During 2017, the Company declared dividends of GEL 5,056 thousand to its shareholders (2016: GEL 5,160 thousand).

In June 2017, dividends declared during 2017 were converted into the share capital of the Company. As a result, par value per share has increased.

NOTE 18. Insurance and reinsurance payables

	31 December 2017 GEL'000	**31 December 2016 GEL'000**
Reinsurance premium payable	7,898	4,326
Reinsurance regress payable	141	3,772
	8,039	**8,098**

NOTE 19. Investment contract liabilities

	31 December 2017	**31 December 2016**
Number of registered participants		
• In the voluntary funds	11,796	12,006
Total assets under management (GEL'000)	**5,982**	**5,906**

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 20. Trade and other payables

	31 December 2017 GEL'000	**31 December 2016 GEL'000**
Employee liabilities	1,686	1,470
Commission payable	1,367	7,535
Premiums received in advance	1,261	842
Other liabilities	1,744	2,376
	6,058	**12,223**

NOTE 21. 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 the end of each reporting period, 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 59% 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 2017.

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"). Casco and MTPL insurances make up approximately 17% of the total insurance business respectively in terms of net earned premiums of the Company. 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

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. Property insurances make up approximately 11% of the total insurance business respectively in terms of net earned premiums of the Company

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

Management of risk

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:

31 December 2017

	Gross			Reinsurance share			Net		
	Unearned premium provision GEL'000	Out-standing claims GEL'000	Total GEL'000	Unearned premium provision GEL'000	Out-standing claims GEL'000	Total GEL'000	Unearned premium provision GEL'000	Out-standing claims GEL'000	Total GEL'000
Motor	7,028	2,327	9,355	78	421	499	6,950	1,906	8,856
Marine & cargo	428	456	884	116	228	344	312	228	540
Property	5,752	7,222	12,974	4,257	6,334	10,591	1,495	888	2,383
Medical	20,527	6,688	27,215	25	-	25	20,502	6,688	27,190
Credit Insurance	568	829	1,397	90	249	339	478	580	1,058
Agro	37	2,151	2,188	26	1,956	1,982	11	195	206
Other	3,448	2,093	5,541	2,576	1,278	3,854	872	815	1,687
Total	**37,788**	**21,766**	**59,554**	**7,168**	**10,466**	**17,634**	**30,620**	**11,300**	**41,920**

31 December 2016

	Gross			Reinsurance share			Net		
	Unearned premium provision GEL'000	Out-standing claims GEL'000	Total GEL'000	Unearned premium provision GEL'000	Out-standing claims GEL'000	Total GEL'000	Unearned premium provision GEL'000	Out-standing claims GEL'000	Total GEL'000
Motor	7,051	3,107	10,158	72	1	73	6,979	3,106	10,085
Marine & cargo	339	340	679	161	197	358	178	143	321
Property	7,001	1,944	8,945	4,749	1,745	6,494	2,252	199	2,451
Medical	13,221	2,520	15,741	67	-	67	13,154	2,520	15,674
Credit Insurance	7,079	611	7,690	10	327	337	7,069	284	7,353
Agro	27	799	826	19	558	577	8	241	249
Other	4,296	2,056	6,352	2,415	1,029	3,444	1,881	1,027	2,908
Total	**39,014**	**11,377**	**50,391**	**7,493**	**3,857**	**11,350**	**31,521**	**7,520**	**39,041**

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 one-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 separate 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 2017 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.

Analysis of claims development (gross) – Total

	Accident year					
	before 2014	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of cumulative claims			GEL'000			
Accident year	63,195	53,615	47,980	48,885	75,173	**288,848**
One year later	64,084	56,373	46,867	46,531		**213,855**
Two years later	63,379	56,275	46,724			**166,378**
Three years later	63,379	56,254				**119,633**
Four years later	63,982					**63,982**
						-
Current estimate of incurred claims	**63,982**	**56,254**	**46,724**	**46,531**	**75,173**	**288,664**
Cumulative payments to date	**63,370**	**55,647**	**45,658**	**45,943**	**56,280**	**266,898**
Gross outstanding claims liabilities	**612**	**607**	**1,066**	**588**	**18,893**	**21,766**

NOTE 22. Financial instruments and risk management

A. Accounting classifications and fair values

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

B. 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. 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. 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.

Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Company's activities.

C. 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.

D. 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 that sufficient cash flow is available to meet liabilities arising from insurance contracts.

E. 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.

Credit exposure

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

	31 December 2017 GEL'000	31 December 2016 GEL'000
Bank deposits	20,073	16,223
Loans receivable	492	792
Reinsurance assets (rated at least BBB from Standard & Poor's)	17,634	11,350
Insurance receivables	34,767	35,072
Receivables from subrogation	6,619	5,804
Receivable from sale of investment property	2,699	3,548
Cash and cash equivalents	6,412	7,602
Total credit risk exposure	**88,696**	**80,391**

The cash and cash equivalents and bank deposits are mainly held with Georgian banks with short term issuer default rating of B, based on Fitch Rating. The Company does not expect any counterparty to fail to meet its obligations.

The aging of insurance receivables at the reporting date was:

GEL'000	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	33,004	-	32,450	-
Past due 0-90 days	477	-	2,007	-
Past due 91-180 days	699	63	454	45
Past due 181-270 days	465	126	189	57
Past due 271-365 days	229	81	149	75
Past due more than one year	4,017	3,854	3,571	3,571
	38,891	**4,124**	**38,820**	**3,748**

Insurance receivables from health, motor and property contracts as at 31 December 2017 amounted to GEL 21,860 thousand, GEL 4,995 thousand and GEL 4,665 thousand, respectively (31 December 2016: GEL 13,170 thousand, GEL 5,020 thousand and GEL 5,460 thousand, respectively).

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 is also not subject to significant credit risk on receivables from subrogation as the amounts are determined and agreed upon between the counterparties based on the police act. The payments are collected based on the pre-determined payments schedules which are closely monitored by the Company and the counterparties are immediately brought to court in the event of non-payment.

The receivable from the sale of investment property is fully collateralized with the sold property, so that in the event of non-payment the Company will receive the sold investment property back.

The Company has also issued financial guarantees to its subsidiary (see note 24 (C)).

Management believes that the unimpaired amounts that are past due by 90 days are still collectible in full, based on historic payment behaviour.

(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. All of the Company’s 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.

All of the Company’s assets and liabilities, except for property and equipment, intangible assets and investment property, are expected to be recovered or settled during the twelve months after the reporting date.

(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 Company’s assets and liabilities are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Company has an open currency position (OCP) and is exposed to potentially 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 and USD OCP with the nominal value of USD 3,000 thousand with an effective date of

31 December of each financial year. As at 31 December 2017, there were no open position in the above regards. The Company concluded new forward agreement after the reporting date.

The following table shows the foreign currency structure of monetary assets and liabilities and insurance contract assets and liabilities at 31 December 2017 and 31 December 2016:

	31 December 2017, USD GEL'000	**31 December 2017, EUR GEL'000**	**31 December 2016, USD GEL'000**	**31 December 2016, EUR GEL'000**
Bank deposits	-	9,313	-	8,649
Reinsurance assets	9,623	96	3,212	-
Insurance receivables	11,180	1,399	16,981	636
Prepayments and other receivables	2,700	155	3,170	0
Cash and cash equivalents	2,102	234	282	238
Total assets	**25,605**	**11,197**	**23,645**	**9,523**
Liabilities				
Insurance contracts liabilities	9,489	101	4,149	10
Insurance and reinsurance payables	-	3,481	-	1,770
Investment contract liabilities	3,186	88	3,577	85
Trade and other payables	327	86	880	51
Total liabilities	**13,002**	**3,756**	**8,606**	**1,916**
Net position as at 31 December	**12,603**	**7,441**	**15,039**	**7,607**

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

	31 December 2017 GEL'000	**31 December 2016 GEL'000**
10% appreciation of USD against GEL	1,071	1,278
10% depreciation of USD against GEL	(1,071)	(1,278)
10% appreciation of EUR against GEL	632	647
10% depreciation of EUR against GEL	(632)	(647)

(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.

F. Capital management

a) Capital management objectives, policies and approach

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

- Compliance with the requirements of Insurance State Supervision Services of Georgia;
- Maintaining the composition and structure of the assets accepted to cover insurance liabilities, when due and to exceed regulatory requirements; and
- Maintaining the required level of stability of the Company thereby providing a degree of security to policyholders.

It is in the Company's interest to maintain adequate capital resources at all times and to fulfill respective minimum regulatory capital requirements. The Company has traditionally had very good capital resources. Maintaining this good capital base in the future is also important to the Company, both to allow to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

As part of the process in monitoring and managing its capital, the Company refers to its Asset Management Plan ("AMP"), which is focused on enabling the Company to constantly maintain a minimum level of funds, placed in top Georgian banks. Control of the structure of assets are carried out by means of monthly reports to the shareholder, containing the relevant calculations to be verified by Chief Financial Officer of the Company.

_b)_ Regulatory requirements

The insurance sector in Georgia is regulated by the Insurance State Supervision Service of Georgia ("ISSSG"). The ISSSG imposes minimum capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins.
According to the ISSSG directive №04, issued on 20 April 2015, the minimum capital throughout the period should be not less than GEL 2,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances.

The company makes certain adjustments to the IFRS equity in these separate statements of financial position in order to arrive to the ISSSG prescribed capital.

The Company was in compliance with the externally imposed capital requirements from ISSSG as at 31 December 2017 and no changes were made to its objectives, policies and processes from the previous year for managing capital.

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

- The Regulatory Capital should be not less than 50% of RSM throughout the period from 1 January 2017 to 1 July 2017;
- The Regulatory Capital should be not less than 75% of RSM throughout the period from 1 July 2017 to 1 January 2018; and
- The Regulatory Capital should be at least RSM throughout the period from 1 January 2018.

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

As at the date these separate financial statements were authorized for issue, the Company was in compliance with the level of Regulatory Capital as opposed to RSM, which amounted to GEL 14,950 thousand as at 31 December 2017.

NOTE 23. Related party transactions and balances

Name	Relationship	Transaction 2017 GEL'000	Outstanding balance 31-12-2017 GEL'000
Medical Concern Curatio JSC	Subsidiary		
Claims paid		3,566	-
Advance payments for claims		-	500
Unsecured loan given *		-	255
Interest income		67	-
Public Pharmacy LLC	Subsidiary		
Claims paid		3,358	-
Advance payments for claims **		-	1,708
Unsecured loan given *		133	-
Interest income		2	-
Geo Hospitals LLC	Subsidiary		
Claims paid		230	77
ATBH LVP	Shareholder		
Dividend Distribution		4,550	-
Investment in Charter Capital		4,550	-
Soft International Georgia LLC	Shareholder		
Dividend Distribution		506	-
Investment in Charter Capital		506	-
VIG	Ultimate parent		
Reinsurers' share of gross premiums		444	150
Reinsurance share of gross benefits and claims paid		-	93
Other income		155	155
IRAO	Fellow subsidiary		
Policies written		-	150
Claims paid		38	-
Insuarance Software		339	-
Forward agreement ***		198	16
Reinsurers' share of gross premiums			
Rental expenses		310	-
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurers' share of gross premiums		3,200	-
Reinsurance share of gross benefits and claims paid		1,772	-
Reinsuarance payable		-	2,835

Name	**Relationship**	**Transaction 2016 GEL'000**	**Outstanding balance 31 December 2016 GEL'000**
Medical Concern Curatio JSC	Subsidiary		
Claims paid		3,910	128
Rental income		40	-
Unsecured loan given *		-	345
Interest income		9	-
Public Pharmacy LLC	Subsidiary		
Claims paid		3,765	-
Advance payments for claims **		-	1,411
Unsecured loan given *		-	133
Interest income		19	115
Geo Hospitals LLC	Subsidiary		
Claims paid		216	285
Interest income		7	-
Forward agreement ***		205	206
GPIH B.V.	Shareholder		
Dividends distribution		4,644	-
Soft International Georgia LLC	Shareholder		
Dividends distribution		516	-
VIG	Ultimate parent		
Reinsurers' share of gross premiums		273	125
Reinsurance share of gross benefits and claims paid		313	-
IRAO	Fellow subsidiary		
Policies written		63	86
Claims paid		3,596	-
Forward agreement ***		75	517
Reinsurers' share of gross premiums		-	197
Rental expense		310	-
VIG Re zajišťovna, a.s.	Fellow subsidiary		
Reinsurers' share of gross premiums		3,617	-
Reinsurance share of gross benefits and claims paid		4,403	-
Reinsuarance payable		-	3,170

* The loans given to related parties above are denominated in GEL and bear an interest rate of 10-12%.

** The advance payments for claims are carrying 0% interest rate and are expected to be realized within 6 month after the end of the reporting date.

*** The forward agreements were signed with Geo Hospitals LLC and International Insurance Company IRAO JSC to hedge the Company's EURO OCP with the nominal value of EUR 2,000 thousand and USD 3,000 thousand and EUR 1,000 thousand, respectively, with the maturity date of 31 December 2017 (see note 22 (E) (c)).The balances at the end of reporting dates represent the unpaid portions in the above regards.

Credit related commitments

As at 31 December 2017, 31 December 2016 and the date these separate financial statements were authorized for issue, the Company maintains debt related commitments towards its subsidiary, Geo Hospitals LLC (see note 24 (C)).

Compensation of key management personnel

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

	2017 GEL'000	2016 GEL'000
Payroll	832	887
Bonuses	592	542
Other benefits	248	5
Total key management personnel compensation	**1,672**	**1,434**

NOTE 24. 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 three 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 15,198 thousand as at 31 December 2017 (31 December 2016: EUR 15,998 thousand), if Geo Hospitals LLC fails to meet its obligations, when they fall due. The guarantee issued by the Company was for no consideration. Geo Hospitals LLC loan matures on 31 December 2025.

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 2017, no events of default under the agreement occurred and management believes that the probability of the counterparties failing to meet its contractual obligations under the agreement is remote. Therefore, no provision was recognised for the arrangement.

NOTE 25. Basis of measurement

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

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.

Direct and indirect costs above constitute sales commissions paid to employees, fee and commission costs paid or payable to agent and other counterparties for the conclusion and renewal of insurance agreements, etc.

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 22; and
- Receivables from subrogation as presented in note 15;

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

(i) Income tax

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

(ii) Current tax

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

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

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

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2019 or further years.

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

(iii) Deferred tax

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities until 1 January 2019, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available until 1 January 2019 against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Due to the nature of the new taxation system described above, the financial institutions registered in Georgia will not have any differences between the tax bases of assets and their carrying amounts from 1 January 2019 and hence, no deferred income tax assets and liabilities will arise, there on.

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 effective for annual periods beginning after 1 January 2017 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.

- In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. 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 has chosen to postpone adoption of IFRS 9 based on the amendment to IFRS 9 which allows insurance companies to apply IFRS 9 at the same time as the forthcoming IFRS for insurance contracts, therefore IFRS 9 will become effective for the company for annual periods beginning on or after 1 January 2021.

- IFRS 17 *Insurance Contracts* introduces an accounting model that measures groups of insurance contracts based on fulfilment cash flows and a CSM. It brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statemetns more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings. IFRS 17 is effective for annual periods beginning on or after 1 January 2021. Early adoptions is permitted for entities that apply IFRS 9 and IFRS 15 on or before the date of application of IFRS 17.

NOTE 26. Subsequent events

According to the draft changes in the tax legislation, related to corporate income tax reform (note 25 (J) (ii)) dated 22 February 2018, the law will become effective for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops) from 1 January 2023. This deferral of the implementation date of the Estonian Tax model may impact future tax and deferred tax balances.