mgi

BUSINESS SOLUTIONS
WORLDWIDE

CONTENT

Statement of Management's Responsibilities

JSC "Insurance Company IC Group"

Statement of Management's responsibilities for preparation and approval of Financial Statements as at 31 December 2016.

The following statement should be considered in conjunction with the independent auditors responsibilities stated in the independent auditors' report set out on pages 5 and 6 for the purpose of distinguishing the responsibilities of management and those of independent auditors in relation to the financial statements of JSC "Insurance Company IC group" ("Group").

Management is responsible for the preparation of the financial statements that fairly reflects the financial position of the Group as of December 31, 2016, the results of its operations, cash flows and changes in equity for the year ended at the same date, in accordance with International Financial Reporting Standards (IFRS).

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

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

Management is also responsible for:

- Creation, implementation and maintenance of effective and stable internal control system;
- Maintaining such accounting records, which enable the Group to present at any time its financial position with reasonable accuracy and compliance of the financial statements with IFRS;
- Keeping proper accounting records in compliance with local regulations and accounting standards;
- Taking steps to safeguard the safety of assets of the Group; and
- Prevention and detection of fraud and other irregularities.

On behalf of the Management:

General Director

Tengiz Mezurnishvili

13 April 2017

Tbilisi, Georgia

Chief Financial Officer

Levan Kakulia

13 April 2017

Tbilisi, Georgia

N19,D. Gamrekeli Street
Suit #503
0160 Tbilisi, Georgia
Tel.: +995 32 2330 906
+995 32 2378 909
Fax: +995 32 2385 181
e-mail: info@mgi.com.ge
www.mgi.com.ge

INDEPENDENT AUDITORS' REPORT

TO THE MANAGEMENT OF JSC "INSURANCE COMPANY IC GROUP":

We have audited the accompanying consolidated financial statements of JSC "Insurance Company IC Group" (the "Group"), which comprise the consolidated and standalone statements of financial position as at December 31, 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying consolidated and standalone financial statements of JSC "Insurance Company IC Group" give a true and fair view of the financial position of the Group as at December 31, 2016 in accordance with International Financial Reporting Standards.

Audit and Consulting Service MGI Georgia LLC

Member of MGI Worldwide

13 April 2017

Tbilisi, Georgia

MGI georgia

Insurance Company IC Group
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016
Amounts expressed in thousands of GEL

	Note	As st 31.12.2016	As at 31.12.2015
ASSETS			
Cash and cash eqiuvalents	5	1 129	3 141
Amounts due from credit institutions	6	2 691	3 071
Insurance and reinsurance receivables	7	4 001	3 915
Loans issued and receivables	8	1 399	2 418
Reinsurance assets	9	13 573	9 161
Current income tax asset	10	16	670
Deferred income tax asset	10	3 078	2 538
Investments in subsidiaries		-	-
Investment property	11	2 080	1 413
Property and equipment	12	3 109	3 747
Intangible assets		61	80
Deferred acquisition costs	13	332	327
Other assets	14	5 051	5 090
TOTAL ASSETS:		**36 520**	**35 571**
LIABILITIES			
Insurance contracts liabilities	9	15 948	13 796
Deferred commission income		1 087	236
Other insurance liabilities	15	4 407	6 266
Financial liabilities	16	5 954	6 875
Trade payables	17	800	328
Other liabilities	18	3 536	3 814
TOTAL LIABILITIES:		**31 732**	**31 315**
EQUITY			
Share capital	19	1 500	1 500
Allowance for impairment		-	-
Retained earnings / (Accumulated loss		3 288	2 756
Noncontrolling interest		-	-
TOTAL EQUITY		**4 788**	**4 256**
TOTAL EQUITY AND LIABILITIES		**36 520**	**35 571**

Tengiz Mezurnishvili
General Director

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer

Amounts expressed in thousands of GEL

	Note	Year 2016	Year 2015
Gross earned premiums on insurance contracts	21	15 444	17 521
Reinsurer's share of gross earned premiums on insurance contracts	21	(14 342)	(7 486)
Net insurance revenue		**1 102**	**10 035**
Interest income	22	1 253	1 337
Revenue from medical services rendered	23	495	1 087
Change in fair value of investment propertie	11	667	-
Gain from sale of subsidiary		-	-
Other operating income	24	508	1 638
Other revenue		**2 923**	**4 062**
TOTAL REVENUE		**4 025**	**14 097**
Gross insurance benefits and claims paid	25	(8 434)	(10 047)
Reinsurers' share of gross insurance benefits and claims paid	25	9 610	3 651
Gross change in contracts liabilities	25	(2 770)	4 405
Reinsurers' share of gross change in insurance contract liabilities	25	3 277	(4 588)
Net insurance claims		**1 683**	**(6 579)**
Cost of Medical Service Provided	26	(536)	(760)
Salaries and other employee benefits	27	(2 110)	(2 683)
General and other administrative expenses	28	(2 408)	(1 257)
Impairment charge	29	(3 036)	(2 957)
Interest expense	22	(601)	(837)
Depreciation and amortization expenses	12	(698)	(874)
Acquisition income (costs), net of reinsurance		4 476	(222)
Foreign exchange and translation gain (loss)		330	1 544
Other operating expenses	24	(353)	(854)
Other expenses		**(4 936)**	**(8 900)**
TOTAL CLAIMS AND EXPENSES		**(3 253)**	**(15 479)**
Profit / (Loss) before tax		772	**(1 382)**
Income tax (expense)/benefit	10	(241)	371
Net Income/(Loss) for the year from continuing operations		**531**	**(1 011)**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**531**	**(1 011)**

Total comprehensive (loss)/income attributable to:

- Shareholders of the Company
- Non-controlling interest

Tengiz Mezurnishvili
General Director

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer

Amounts expressed in thousands of GEL

	Consolidated 2016	Consolidated 2015
Cash flows from operating activities	**(841)**	**790**
Premium received	13 920	17 678
Cash paid to reinsurer	(2 626)	(4 491)
Claims paid	(7 407)	(8 402)
Acquisition costs	(778)	(918)
Subrogation received	107	186
Cash payments to employees	(1 555)	(2 204)
Net interest income	(60)	(560)
Administrative & other payments	(1 851)	(1 980)
Penalties paid	(74)	(6)
Taxes paid	(817)	(888)
Rent income	128	340
Cash received from medical services	172	2 034
Cash flows from investing activities	**(178)**	**4 909**
Time deposits	465	5 250
Purchase of property and equipment	(37)	(52)
Loans issued (net)	71	(107)
Investments in subsidiaries	(666)	-
Other investments	(11)	(182)
Cash flows from financing activities	**(1 095)**	**(3 524)**
Net overdrafts received (repaid)	(982)	(6)
Loans received (net)	(116)	(3 517)
Cash received from shareholders	260	-
Dividends paid	(257)	-
Net (decrease)/increase in cash and cash equivalents	**(2 114)**	**2 175**
Net loss from exchange rates changes	102	105
Cash and cash equivalents, beginning balance	3 141	861
Cash and cash equivalents, ending balance	**1 129**	**3 141**

Tengiz Mezurnishvili
General Director

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer

Amounts expressed in thousands of GEL

	Share capital	Retained earnings	Total
Balance as at December 31, 2014	**1 500**	**3 641**	**5 141**
Total comprehensive income	-	(884)	**(884)**
Balance as at December 31, 2015	**1 500**	**2 757**	**4 257**
Total comprehensive income	-	531	**531**
Balance as at December 31, 2016	**1 500**	**3 288**	**4 788**

Tengiz Mezurnishvili
General Director
(signed)

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer
(signed)

Insurance Company IC Group
STANDALONE STATEMENT OF FINANCIAL POSITION
As at December 31, 2016
Amounts expressed in thousands of GEL

	As at 31.12.2016	As at 31.12.2015
ASSETS		
Cash and cash eqiuvalents	1 070	2 961
Amounts due from credit institutions	2 691	3 071
Insurance and reinsurance receivables	4 005	3 926
Loans issued and receivables	1 349	2 343
Reinsurance assets	13 573	9 161
Current income tax asset	-	654
Deferred income tax asset	2 148	1 721
Investments in subsidiaries	5 067	4 402
Investment property	-	-
Property and equipment	217	347
Intangible assets	59	77
Deferred acquisition costs	332	327
Other assets	1 884	1 463
TOTAL ASSETS:	**32 395**	**30 453**
LIABILITIES		
Insurance contracts liabilities	15 948	13 796
Deferred commission income	1 087	236
Other insurance liabilities	4 407	6 266
Financial liabilities	2 866	3 411
Trade payables	256	139
Other liabilities	2 156	1 849
TOTAL LIABILITIES:	**26 720**	**25 697**
EQUITY		
Share capital	1 500	1 500
Allowance for impairment	-	-
Retained earnings / (Accumulated loss)	4 175	3 256
Noncontrolling interest	-	-
TOTAL EQUITY	**5 675**	**4 756**
TOTAL EQUITY AND LIABILITIES	**32 395**	**30 453**

Tengiz Mezurnishvili
General Director

Levan Kakulia
Chief Financial Officer

Date: 13 April 2017

Insurance Company IC Group
STANDALONE STATEMENT OF COMPREHENSIVE INCOME
As at December 31, 2016
Amounts expressed in thousands of GEL

	Year 2016	Year 2015
Gross earned premiums on insurance contracts	15 444	17 522
Reinsurer's share of gross earned premiums on insurance contracts	(14 342)	(7 486)
Net insurance revenue	1 102	10 036
Interest income	681	779
Revenue from medical services rendered	-	-
Change in fair value of investment propertie	-	-
Gain from sale of subsidiary	-	-
Other operating income	338	864
Other revenue	1 019	1 643
TOTAL REVENUE	**2 121**	**11 679**
Gross insurance benefits and claims paid	(8 434)	(10 047)
Reinsurers' share of gross insurance benefits and claims paid	9 610	3 651
Gross change in contracts liabilities	(2 770)	4 405
Reinsurers' share of gross change in insurance contract liabilities	3 277	(4 588)
Net insurance claims	1 683	(6 579)
Cost of Medical Service Provided	-	-
Salaries and other employee benefits	(2 062)	(2 489)
General and other administrative expenses	(2 326)	(1 091)
Impairment charge	(2 183)	(1 894)
Interest expense	(218)	(300)
Depreciation and amortization expenses	(201)	(266)
Acquisition income (costs), net of reinsurance	4 477	(221)
Foreign exchange and translation gain (loss)	306	1 971
Other operating expenses	(323)	(325)
Other expenses	**(2 530)**	**(4 615)**
TOTAL CLAIMS AND EXPENSES	**(847)**	**(11 194)**
Profit / (Loss) before tax	1 274	485
Income tax (expense)/benefit	(355)	179
Net Income/(Loss) for the year from continuing operations	919	664
Other comprehensive income	-	-
Total comprehensive (loss)/income for the year	919	664

Total comprehensive (loss)/income attributable to:

- Shareholders of the Company
- Non-controlling interest

Tengiz Mezurnishvili
General Director

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer

Amounts expressed in thousands of GEL

	2 016	2 015
Cash flows from operating activities	(1 219)	957
Premium received	13 920	17 679
Cash paid to reinsurer	(2 626)	(4 491)
Claims paid	(7 407)	(7 719)
Acquisition costs	(778)	(918)
Subrogation received	107	186
Cash payments to employees	(1 561)	(1 921)
Net interest income	(60)	(50)
Administrative & other payments	(2 049)	(1 078)
Penalties paid	(74)	(6)
Taxes paid	(691)	(725)
Rent income	-	-
Cash received from medical services	-	-
Cash flows from investing activities	(247)	4 242
Time deposits	465	5 250
Purchase of property and equipment	(37)	(52)
Loans issued (net)	2	203
Investments in subsidiaries	(666)	(1 276)
Other investments	(11)	118
	-	
Cash flows from financing activities	(527)	(3 113)
Net overdrafts received (repaid)	(982)	(6)
Loans received (net)	455	(3 106)
Cash received from shareholders	-	-
Dividends paid	-	-
Net (decrease)/increase in cash and cash equivalents	(1 993)	2 085
Net loss from exchange rates changes	102	66
Cash and cash equivalents, beginning balance	2 961	809
Cash and cash equivalents, ending balance	1 070	2 961

Tengiz Mezurnishvili
General Director

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer

Amounts expressed in thousands of GEL

	Share capital	Retained earnings	Total
Balance as at December 31, 2014	1 500	2 592	4 092
Total comprehensive income	-	664	664
Balance as at December 31, 2015	1 500	3 256	4 756
Total comprehensive income		919	919
Balance as at December 31, 2016	1 500	4 175	5 675

Tengiz Mezurnishvili
General Director

Date: 13 April 2017

Levan Kakulia
Chief Financial Officer

1. GENERAL INFORMATION

Insurance Company IC Group LLC (the „Company") was incorporated on 10 November 2005 based on the decision of Vake District Court of Tbilisi, under the laws of Georgia. On 5 May 2009 Insurance Company IC Group LLC acquired 100% of JSC Peoples' Insurance. The latter was merged with Insurance Company IC Group LLC on 15 September 2009. The Company changed its legal status and from 23 December 2015 it became JSC "Insurance Company IC Group".

The Company possesses two types of insurance licenses issued by the Insurance Bureau and Supervisory Board of Georgia for life and non-life insurance products. The Company offers life and various non-life insurance services and insurance products relating to property, aviation, liability, personal insurance and others. Besides insurance services, the Company also provides healthcare products and services through its 100% owned subsidiary Medical Park Georgia LLC.

The registered office of the Company is 24 Mosashvili St, Tbilisi, 0162 Georgia.

The owner of 82.541% of Company's shares is Tengiz Mezurnishvili, General Director of the Company, while 17.459% belong to IIC Georgia B.V.

The number of employees at the end of 2016 was 100 (2015:91).

2. BASIS OF PREPARARTION

GENERAL

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Company is required to maintain its records and prepare its consolidated financial statements for regulatory purposes in Georgian Lari in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements value are presented in Georgian Lari (functional and presentation currency) rounded to the nearest thousand (GEL 000), unless otherwise indicated.

The Company presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after reporting date (non-current) is presented in the respective Notes.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Amounts expressed in thousands of GEL

2. BASIS OF PREPARARTION (Continued)

Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries:

	Ownership / Voting			*Date of*	
Subsidiary	*2016*	*2015*	*Country*	*Incorporation*	*Industry*
AliansMedi + LLC	100%	100%	Georgia	11-Oct-10	Real estate
Medical Park Georgia LLC	100%	100%	Georgia	16-Nov-10	Health care provider
Global Call LLC	100%	100%	Georgia	3-Dec-10	Information and communications
Agaraki LLC	100%	100%	Georgia	25-Oct-11	Real estate
Bolnisi District Hospital LLC	100%	100%	Georgia	23-May-12	Real estate
Bolnisi District Adults Polyclinic LLC	100%	100%	Georgia	23-May-12	Real estate
Diagnostics - 2000 LLC	100%	100%	Georgia	23-May-12	Real estate
Bolnisi District Emergency Service - 03 LLC	100%	100%	Georgia	23-May-12	Real estate

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-Company balances, transactions, income and expenses and profits and losses resulting from intra-Company transaction are eliminated in full.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where it is necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Cash and cash equivalents

Cash and cash equivalents comprise cash at Company, current accounts and short-term deposits with an original maturity of three months or less in the consolidated statement of financial position.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognized based upon insurance policy terms and measured at cost.

The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated income statement.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

Financial Assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets upon initial recognition.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Company's strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities (including shareholders' funds), on the same bases, being fair value. The available-for-sale and held-to-maturity categories are used where the relevant liability (including shareholders' funds) are passively managed and/or carried at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Assets (Continued)

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company's financial assets include cash and short-term deposits, loans issued and other receivable and investments available for sale.

Loans issued and receivables

Loans issued and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value. After initial recognition available-for sale financial assets are re-measured at fair value with gains or losses being recognized as a separate component of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

Determination of fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Assets (Continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Derecognition of financial assets

A financial asset (or, when applicable, a part of financial asset or part of a Company of similar financial assets) is derecognised when:

- The right to receive cash flows from the assets have expired,

OR

- The Company retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'path-through' arrangement;

And either:

- The Company has transferred substantially all the risks and rewards of the asset;

OR

- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

When the Company transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred the control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In this case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the right and obligations that the Company has retained.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Assets (Continued)

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

Assets carried at amortized cost

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement.

INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities

The provision for life insurance contracts is calculated on the basis of the terms of the contract and the insurance period as well as the prudent estimation of incurred losses in the claims reported at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INSURANCE CONTRACT LIABILITIES (Continued)

General insurance contract liabilities

General insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The liability is calculated at the reporting date based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiry date of each insurance policy. The Company reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims. The differences between the unearned premium reserves, loss provisions and as well as the expected claims are recognised in the consolidated income statement by setting up a provision for premium deficiency.

Reinsurance assets

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The reinsurers' share of each unexpired risk provision is recognized on the same basis. Reinsurance assets are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Offsetting

Reinsurance assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the reinsurance asset and settle the reinsurance liability simultaneously. Respective income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred acquisition costs

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

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

Property and equipment

Property and equipment, including the owner occupied property, is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

epreciation is provided straight line basis over the useful lives of the following classes of assets:

- Buildings: 20 years
- Motor vehicles: 5 years
- Medical equipment and machinery: 5 years
- Furniture and fixtures: 5 to 10 years
- Leasehold improvementsს: 7 years

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated income statement as an expense.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use of disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognised.

Assets under construction comprised costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

Leasehold improvements are amortised over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are measured initially at cost, including transaction cost. 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 cost of day-to-day servicing of investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to date of the change in use.

Inventory supplies

Inventory supplies are valued at the lower of cost and net realizable value. Cost of inventory supplies is determined on a weighted average basis and includes expenditure incurred in acquiring inventory supplies and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. No provisions for obsolete or slow moving inventory supplies are made.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, minus directly attributable transaction costs.

The Company’s financial liabilities include insurance contract liabilities, bank loans, overdrafts and other liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of EIR. The EIR amortisation is included in interest expense in the consolidated income statement.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Insurance payables

Initial recognition and measurement

Insurance payables are recognised when due and are measured on initial recognition at the fair value of consideration received less directly attributable transaction costs.

Derecognition of insurance payables

Insurance payables are derecognised when obligation under the liability is settled, cancelled or expired.

Deferred commission income

The commission income earned during the financial period arising from the reinsurance ceded are deferred and then amortised over the period in which the related reinsurance costs are recognized.

Leases

Finance leases - The Company as lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys a right to use the asset, even if the right is not explicitly specified in an arrangement. For arrangement entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005, in accordance with the translation requirements of IFRIC 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Company as lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in interest expense in the consolidated income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rentals are recognised as an expense in the period when they are incurred.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the country where the Company operates and generates taxable income.

The current income tax expense is calculated in accordance with the regulations of Georgia.

Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statement. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

eorgia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of other operating expenses.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with function of intangible asset.

- Computer software: 5 years

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised

Provisions and contingent liabilities

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

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is more probable than not.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Governmental grants

Governmental grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. Grants related to income are government grants other than those related to assets.

Presentation of grants related to assets

Government grants related to assets, including non-monetary grants at fair value, are presented in the consolidated statement of financial position by setting up the grant as deferred income.

Deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.

Share capital

Share capital

Share capital is recognized at cost. Share capital contributed in assets other than cash is stated at the fair value of such assets at the date of contribution.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income and expense recognition

Premium income

Premiums from life insurance contracts are recognized as revenue when payable by the policyholders, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognized. For single premium business this is the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due.

For non-life business premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage.

Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

Premiums ceded

Premiums payable in respect of reinsurance ceded are recognized in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

Provision for unearned premiums

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in the order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Fee and commission income

Insurance contract policyholders are charged for policy administration services, investment management services and for surrenders. The fee is recognized as revenue in the period in which it is received unless these relate to services to be provided in future periods.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income and expense recognition (Continued)

Revenue from medical services rendered

Revenues from medical services are recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured on an accrual basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Cost of Medical Services Rendered

Cost of medical services rendered represents expenses directly related to the generation of revenue from medical services rendered, including, but not limited to wages and salaries of medical personnel, cost of medicines and other inventory. Cost of medical services is expensed in the period in which the medical service is rendered.

Realized gains and losses recorded in the consolidated income statement

Realized gains and losses on the sale of property and equipment and of available for sale financial assets are calculated as the difference between net sales proceeds and the original or amortized cost. Realized gains and losses are recognized in the consolidated income statement when the sale transaction occurred.

Benefits and claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as gains less losses from foreign currencies - translation differences, except where it relates to items where gains or losses are recognized directly in equity, the gain or loss is then recognized net of the exchange component in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2016 and 2015, were 2.6468 and 2.3949 Georgian Lari to 1 US dollar, and 2.7940 and 2.6169 Georgian Lari to 1 Euro respectively.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Use of estimates, assumptions and judgments

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under life and general insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims.

a) Life insurance contracts

For life insurance contracts there is no claims liability at the reporting date since the only life insurance product is an annual insurance contract, which may be renewed, that will pay out a fixed amount to a beneficiary when the insured person dies within that year.

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)

Estimation uncertainty

b) General insurance contracts

For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. General insurance claims provisions are not discounted for the time value of money.

Allowance for impairment of Insurance Receivables and Reinsurance Assets

The Company regularly reviews its insurance receivables and reinsurance assets to assess impairment. The allowance methodology has been consistently applied.

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment.

The amount of allowance is reduced by an amount of receivables which formally meet the criteria mentioned above, but in relation to which the Company has adequate reasons to believe that the amount of debt will be recovered.

Run-off analyses support this approach. Management judgment is that trends will not change in future and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Irrecoverable amounts and specific credit risks are written off by charging directly against gross premiums. Allowances for impairment based on past experience are necessary in respect of receivables due from policyholders and agents/brokers on direct insurance and in respect of counterparts on reinsurance.

Measurement of fair value of investment properties

Fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using the sales comparison method. The estimate is subject to change as new transaction data and market evidence becomes available.

Amounts expressed in thousands of GEL

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December comprise:

	IC Group	2016	2015
Cash on hand	10	53	251
Curremt accounts	1 060	1 076	2 890
TOTAL	***1 070***	**1 129**	**3 141**

Cash and cash equivalents of JSC Insurance Company IC Group on standalone basis comprise GEL 1,070. The regulator requirement is to maintain minimum level of cash and cash equivalents at 10% of the insurance contract liabilities subject to reservation as defined by regulatory reserve requirement resolution, which as of reporting date amounts to GEL 118 (1,177*10%).

Current accounts balance as of 31 December comprise:

	IC Group	2016	2015
JSC VTB Bank	176	189	1 126
JSC KorStandard Bank	228	228	212
JSC Halyk Bank Georgia	233	233	318
JSC TBC Bank	107	108	886
Other banks	316	318	348
TOTAL	***1 060***	**1 076**	**2 890**

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

6 AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions as of 31 December comprise:

	2016	2015
JSC Halyk Bank Georgia	531	-
JSC KorStandard Bank	245	225
JSC PrivatBank	-	-
JSC Silk Road Bank	292	1 457
JSC VTB Bank	-	-
JSC TBC Bank	1 623	1 389
TOTAL	**2 691**	**3 071**

Amounts expressed in thousands of GEL

6 AMOUNTS DUE FROM CREDIT INSTITUTIONS (Continued)

Amounts due from credit institutions are represented by short-term (up to 12 months) placements with Georgian banks and earn annual interest of 3% to 8% (2015 – 3% to 9%).

Amounts due from credit institutions include GEL 488 (2015: GEL 2,868) of restricted deposits to secure insurance contract liabilities in accordance with regulatory requirement of Insurance State Supervision Service of Georgia.

7 INSURANCE AND REINSURANCE RECEIVABLES

Insurance and reinsurance receivables as of 31 December comprise:

	2016	2015
Due from policyholders	8 530	8 037
Due from reinsurers	-	-
	8 530	**8 037**
Less - allowance for impairment (Note 29)	(4 529)	(4 122)
TOTAL	**4 001**	**3 915**

he carrying amounts disclosed above reasonably approximate their fair values at year end.

8 LOANS ISSUED AND RECEIVABLES

Loans issued and receivables as of 31 December comprise:

	2016	2015
Loans issued and receivables	12 465	10 997
Less - allowance for impairment (Note 29)	(11 066)	(8 579)
TOTAL	**1 399**	**2 418**

The loans receivable (principal and interest at amortised cost) comprise:

	2016	2015
Loans issued to related parties	-	-
Loans issued to individuals	27	615
Loans issued to legal entity	1 372	1 803
TOTAL	**1 399**	**2 418**

The loans issued to individuals have an interest rate from 11% to 16%.

Carrying amounts of loans issued and receivables approximate their fair value as of the reporting date.

Amounts expressed in thousands of GEL

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Insurance contract liabilities and reinsurance assets as of 31 December comprise:

	2 016	2 015
Insurance contract liabilities		
Unearned premiums provision	5 069	5 686
Provisions for claims reported by policyholders	10 686	7 818
Provisions for claims incurred but not reported (IBNR)	193	292
Total insurance contract liabilities	**15 948**	**13 796**
Reinsurance assets		
Reinsurers' share in unearned premiums provision	3 648	2 513
Reinsurers' share in provisions for claims reported by policyholders	9 925	6 648
Reinsurers' share in provisions for claims incurred but not reported	-	-
Total reinsurance assets	**13 573**	**9 161**
Insurance contracts liabilities net of reinsurance		
Unearned premiums provision	1 421	3 173
Provisions for claims reported by policyholders	761	1 170
Provisions for claims incurred but not reported (IBNR)	193	292
Total insurance contracts liabilities net of reinsurance	**2 375**	**4 635**

Amounts expressed in thousands of GEL

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

Insurance contract liabilities as of 31 December comprise:

		2016			2015		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*
Life insurance	(a)	197	103	94	186	-	186
General insurance	(b)	15 751	13 470	2 281	13 610	9 161	4 449
Total Insurance Contract Liabilities		**15 948**	**13 573**	**2 375**	**13 796**	**9 161**	**4 635**

(a) The movement during the year in the life insurance contract liabilities is as follows:

		2016			2015		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*
At 1 January		186		186	**165**	**2**	**163**
				-			
Premiums written during the year	21	211	263	(52)	213	1	**212**
Premiums earned during the year		(227)	(224)	(3)	(189)	(3)	**(186)**
Claims incurred during the current accident year		62	92	(30)	29	-	**29**
Claims paid during the year	25	(35)	(28)	(7)	(32)	-	**(32)**
At 31 December		**197**	**103**	**94**	**186**	**-**	**186**

(b) General insurance contract liabilities may be analyzed below. Provision for claims settlement expenses is included in the gross insurance contract liabilities.

Amounts expressed in thousands of GEL

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

		2016			2015		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*
Provisions for claims reported by policyholders		10 560	9 862	**698**	7 727	6 648	1 079
Provisions for claims incurred but not reported		190	-	**190**	281	-	281
Outstanding claims provision	(1)	**15 750**	**9 862**	**888**	**8 008**	**6 648**	**1 360**
Provision for unearned premiums	(2)	5 001	3 608	**1 393**	5 602	2 513	3 089
Provision for loss adjustment expenses		-	-	-	-	-	-
Total general insurance contracts liabilities		**15 750**	**13 470**	**2 281**	**13 610**	**9 161**	**4 449**

(1) The provision for claims reported by policy holders, claims paid during the year and loss adjusting expenses may be analyzed as follows:

		2016			2015		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*
At 1 January		**8 008**	**6 648**	**1 360**	**12 411**	**11 236**	**1 175**
				-			
Claims incurred during the current accident year		**11 141**	12 795	**(1 654)**	5 612	(937)	**6 549**
Claims paid during the year	25	(8 399)	(9 581)	**1 182**	(10 015)	(3 651)	**(6 364)**
Change in LAER		-	-	-	-	-	-
At 31 December		**10 750**	**9 862**	**888**	**8 008**	**6 648**	**1 360**

Amounts expressed in thousands of GEL

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

(2) The provision for unearned premiums may be analyzed as follows:

		2016			**2015**		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of insurance contract liabilities*	*Net*
At 1 January		**5 602**	**2 513**	**3 089**	**8 695**	**4 544**	**4 151**
Premiums written during the year	21	**14 616**	15 213	**(597)**	**14 238**	5 452	**8 786**
Premiums earned during the year		(15 217)	(14 118)	**(1 099)**	(17 331)	(7 483)	**(9 848)**
					5 602	2 513	3 089
At 31 December		**5 001**	**3 608**	**1 393**	**11 203**	**5 026**	**6 177**

Insurance contract liabilities and reinsurance assets - terms, assumptions and sensitivities

(a) Life insurance contracts

(1) Terms and conditions

Life insurance contracts offered by the Company only consist of annually renewable term conventional insurance contracts where lump sum benefits are payable on death.

(2) Key assumptions

Premiums for life insurance contracts are based on premiums set by the reinsurance company. These annually renewed insurance contracts only pay a lump sum benefit when the insured person dies within that year. At the reporting date, the pro rata premium for the policy year that is not yet earned, is deferred in the caption Insurance Contract Liabilities.

Insurance contract liabilities and reinsurance assets - terms, assumptions and sensitivities (continued)

(b) General insurance contracts

(1) Terms and conditions

The major classes of general insurance written by the Company include cargo, motor, household, property, freight forwarding liability, professional indemnity, financial risk, health and aviation. Risks under these policies usually cover twelve month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

Amounts expressed in thousands of GEL

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test refer to Note 3 - Summary of significant accounting policies, Insurance contract liabilities.

Insurance contract liabilities on insurance business written in Georgia significantly depends on fluctuations in currency exchange rates as the insurance values on these contracts are denominated in US dollars (see analysis of currency risk in the Note 30 - Risk Management).

10 INCOME TAX

The corporate income tax benefit comprises:

	2016	2015
Current tax	781	144
Deferred tax credit - origination and reversal of temporary differences	(540)	(515)
Income tax expense (benefit)	**241**	**(371)**

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and a turnover based tax. Laws relating to these taxes have not been in force for significant periods in contrast to more developed market economies.

Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

The Company's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Company could have a material impact on the Company's operations or its financial position in Georgia.

	2016	2015
Current income tax asset	16	670
Deferred income tax asset	3 078	2 538
Total tax assets	**3 094**	**3 208**

Amounts expressed in thousands of GEL

11. INVESTMENT PROPERTIES

	2016	2015
At 1 January	**1 413**	**1 413**
Additions	-	-
Fair value gains / (loss)	667	-
Sales	-	-
At 31 December	**2 080**	**1 413**

As at 31 December 2016, investment properties of the Company comprise land in Mtskheta Region. As at December 31, 2016 this property was not used in the supply of services or for administrative purposes and it was not held for sale in the ordinary course of business, thus it is not classified as owner-occupied property. This asset was held for undetermined future use and thus classified as investment property in accordance with IAS 40.

The fair value of the Group's investment property as at 31 December 2016 was determined based on the valuation report of independent professional valuators of Expert Group Ltd. The valuators hold all relevant professional qualification and have recent experience in the location and category of the investment properties valued. Valuations were conducted in accordance with International Valuation Standards.

12 PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

	Land and buildings	Motor vehicles	Medical equipment	Office equipment	Furniture and fixtures	Leasehold improvement	Total
Gross book value							
01-Jan-16	**3 218**	**181**	**1 422**	**776**	**420**	**1 501**	**7 518**
Additions	-	-	-	25	18	-	**43**
Internal transfers							-
Disposals	-	-	(5)	-	(21)	-	**(26)**
31-Dec-16	**3 218**	**181**	**1 417**	**801**	**417**	**1 501**	**7 535**
Accumulated depreciation							
01-Jan-16	**641**	**149**	**804**	**704**	**386**	**1 087**	**3 771**
Depreciation charge	158	12	254	38	49	157	**668**
Disposals	-	(10)	(2)	-	(1)	-	**(13)**
31-Dec-16	**799**	**151**	**1 056**	**742**	**434**	**1 244**	**4 426**
Net book value							
01-Jan-16	**2 577**	**32**	**618**	**72**	**34**	**414**	**3 747**
31-Dec-16	**2 419**	**30**	**361**	**59**	**(17)**	**257**	**3 109**

Property with book value of GEL 2,301 is used as collateral for financial liabilities (Note 16).

Amounts expressed in thousands of GEL

12 PROPERTY AND EQUIPMENT (Continued)

	Land and buildings	Motor vehicles	Medical equipment	Office equipment	Furniture and fixtures	Leasehold improvement	Total
Gross book value							
01-Jan-15	**3310**	**340**	**1776**	**783**	**458**	**1564**	**8231**
Additions	-	1	5	5	19	15	**44**
Internal transfers	-	-	-	-	-		-
Disposals	(92)	(160)	(359)	(12)	(57)	(78)	**(758)**
31-Dec-15	**3218**	**181**	**1422**	**776**	**420**	**1501**	**7518**
Accumulated depreciation							
01-Jan-15	**485**	**240**	**646**	**621**	**371**	**950**	**3313**
Depreciation charge	166	33	325	88	73	166	**851**
Disposals	(10)	(125)	(167)	(4)	(58)	(29)	**(393)**
31-Dec-15	**641**	**149**	**804**	**704**	**386**	**1087**	**3771**
Net book value							
01-Jan-15	**2825**	**100**	**1130**	**162**	**87**	**614**	**4918**
31-Dec-15	**2577**	**32**	**618**	**72**	**34**	**414**	**3747**

13 DEFERRED ACQUISITION COSTS

Deferred acquisition costs as of 31 December comprise:

	2016	2015
At 1 January	**327**	**524**
Incurred	1 185	968
Amortized	(1 180)	(1 165)
At 31 December	**332**	**327**

14 OTHER ASSETS

	2016	2015
Receivables from regress claims	2 674	2 553
Advances and prepayments	1 355	811
Prepaid operating taxes	1 233	27
Trade receivables	969	1 042
Inventory	460	447
Receivable from sales of subsidiaries	103	412
Other	2 072	3 471
	8 866	**8 763**
Less - allowance for impairment of other assets (Note 29)	(3 815)	(3 673)
TOTAL	**5 051**	**5 090**

Amounts expressed in thousands of GEL

14 OTHER ASSETS (Continued)

As of 31 December 2016, advances and prepayments of the Company include GEL 164 (2015: GEL 165) advances paid to clinics.

Prepaid operating taxes of the Company include input VAT GEL 1,188 (2015: GEL 1,188) attributable to the AliansMedi + LLC as at 31 December 2016.

Inventory is related to the stock of medical supplies held by hospitals incorporated during 2012 and 2013.

15 OTHER INSURANCE LIABILITIES

Other insurance liabilities as of 31 December include:

	2016	**2015**
Reinsurance payables	1 674	3 414
Claims payable	2 733	2 852
TOTAL	**4 407**	**6 266**

16 FINANCIAL LIABILITIES

Financial liabilities as of 31 December comprise:

	2016	**2015**
Bank loans	3 176	5 781
Bank overdrafts	-	994
Other payables	2 778	100
TOTAL	**5 954**	**6 875**

he bank loans have an average interest rate of 13.00% per annum (2015: 14.00%), maturing in July 2018 (2015: January 2016 – April 2016).

Included in bank loans are amounts obtained from JSC VTB Bank of GEL 1,588 (2015: GEL 3,280), JSC TBC Bank of GEL 1,588 (2015: GEL 2,289). The bank loans are secured by the Company’s property and equipment with carrying value of GEL 2,301 (2015: GEL 2,452) (Note 12). Also, bank loans are secured by IC Group's 100% share in AliansMedi + LLC and by the property of other party with the value of GEL 1,200.

Amounts expressed in thousands of GEL

17 TRADE PAYABLES

Trade payables as of 31 December comprise:

	2016	2015
Payables for construction	-	-
Trade payable for medical services	61	61
Other payables	739	267
TOTAL	**800**	**328**

18 OTHER LIABILITIES

ther liabilities as of 31 December comprise:

	2016	2015
Accruals for employee compensation	126	214
Operating taxes payable	2 115	2 100
Advances received	733	933
Other	562	567
TOTAL	**3 536**	**3 814**

19 EQUITY

The share capital of the Company was contributed by the shareholders in Georgian Lari and shareholders are entitled to dividends and any capital distribution in Georgian Lari. No dividends were declared during 2016 or 2015.

Regulatory capital requirements in Georgia are set by the insurance regulator and are applied to the Company solely on a standalone basis. The regulatory requirement is to maintain a minimum Capital of GEL 2,200, of which 100% should be kept as amounts due from credit institutions. JSC Insurance Company IC Group comply with the regulatory capital requirements as of 31 December 2016.

20 COMMITMENTS AND CONTINGENCIES

a) Legal

n the ordinary course of business, the Company is subject to legal actions and complaints. Provisions for the probable result of current legal claims were recognised in the financial statements. Management believes that the ultimate liability, if any, arising from any other actions or complaints will also not have a material adverse effect on the financial condition or the results of future operations of the Company.

Amounts expressed in thousands of GEL

20 COMMITMENTS AND CONTINGENCIES (Continued)

b) Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within Georgia suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax, currency and customs positions will be sustained.

c) Financial commitments and contingencies

As of 31 December, the Company's financial commitments and contingencies comprised the following:

	2016	2015
Operating lease commitments:		
Not later than 1 year	367	337
Later than 1 year but not later than 5 years	965	1 168
Capital commitments	-	266
Financial commitments and contingencies	**1 332**	**1 771**

21 NET INSURANCE REVENUE

Net insurance revenue comprises:

	Note	2 016	2 015
Premium written on life insurance contracts	9	211	213
Premium written on general insurance contracts, direct	9	14 616	14 238
Total written premium		**14 827**	**14 451**
Gross change in life provision	9	16	(24)
Gross change in unearned premium provision	9	601	3 094
otal gross earned premiums on insurance contracts		**15 444**	**17 521**
Reinsurers' share of life insurance contracts premium revenue		(263)	(1)
Reinsurers' share of general insurance contracts premium revenue, direct	9	(15 213)	(5 452)
Reinsurers' share of change in life provision		39	(2)
Reinsurers' share of change in general insurance contracts unearned premium provision	9	1 095	(2 031)
Total reinsurers' share of gross earned premiums on insurance contracts		**(14 342)**	**(7 486)**
Net insurance revenue		**1 102**	**10 035**

Amounts expressed in thousands of GEL

22 INTEREST INCOME AND INTEREST EXPENSE

Interest expense and interest income from financial assets comprise:

	2016	2015
Interest income		
Amounts due from credit institutions	118	166
Loans issued and receivables	1 116	1 140
Cash and cash equivalents	19	31
Total interest income	**1 253**	**1 337**
Interest expense		
Bank loans and overdrafts	(601)	(837)
Net interest (expense)/income	**652**	**500**

23 REVENUE FROM MEDICAL SERVICES RENDERED

Revenue from medical services rendered comprise:

	2016	2015
Revenue from government programs	495	1 053
Revenue from free flow (non-insured retail individuals)	-	28
Revenue from insurance companies	-	-
Other revenue from medical services	-	6
TOTAL	**495**	**1087**

24 OTHER OPERATING INCOME AND EXPENSE

Other operating income and expense comprise:

	2016	2015
Other operating income		
Sale of PPE		74
Other	508	1 564
Total other operating income	**508**	**1 638**
Other operating expense		
Penalties imposed	22	3
Discount expense	32	-
Cost of sold investments	-	113
Cost of sale of PPE	13	453
Other	286	285
Other operating expenses	**353**	**854**
Other operating income less other operating expenses	**155**	**784**

Amounts expressed in thousands of GEL

25 NET INSURANCE CLAIMS INCURRED

	2016	2015
Life insurance claims paid	(35)	(32)
General insurance claims paid, direct	(8 399)	(10 015)
Total insurance claims paid	**(8 434)**	**(10 047)**
Reinsurers' share of life insurance claims paid	28	-
Reinsurers' share of general claims paid	9 582	3 651
Gross change in total insurance contracts liabilities	(2 770)	4 405
Reinsurers' share of change in total insurance contracts liabilities	3 277	(4 588)
Net insurance claims incurred	**1 683**	**(6 579)**

26 COST OF MEDICAL SERVICES PROVIDED

	2016	2015
Direct salary expense	-	-
Expenses on medical service providers	-	682
Other indirect expenses	536	45
Direct materials	-	33
TOTAL	**536**	**760**

27 SALARIES AND OTHER EMPLOYEE BENEFITS

Salaries and other employee benefits comprise:

	2016	2015
Salaries	(1 829)	(2 470)
Bonuses	-	(1)
Insurance and other benefits	(281)	(212)
TOTAL	**(2 110)**	**(2 683)**

Amounts expressed in thousands of GEL

28 GENERAL AND OTHER ADMINISTRATIVE EXPENSES

General and administrative expenses comprise:

	2016	2015
Occupancy and rent	388	378
Operating taxes	1	67
Communications	49	53
Legal and consultancy	250	103
Transportation	41	43
Utilities	40	71
Security	5	8
Marketing and advertising	772	63
Bank fees and commissions	31	41
Business travel and related expenses	29	36
Printing	55	33
Representative expenses	47	40
Office supplies	20	32
Repair and maintenance of property and equipment	35	29
Charity	19	21
Other	626	239
TOTAL	**2 408**	**1 257**

29 ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

The movements in the allowance for insurance and reinsurance receivables, loans receivable and receivables from other assets were as follows:

	Insurance and reinsurance receivables (Note 7)	Loans issued and receivables (Note 8)	Other assets (Note 14)	Total
31-Dec-14	**3 395**	**6 641**	**3 381**	**13 417**
Charge	727	1 938	292	2 957
Reversal	-	-		
Write-off	-	-		
31-Dec-15	**4 122**	**8 579**	**3 673**	**16 374**
Charge	407	2 487	142	3 036
Reversal	-	-		
Write-off	-	-		
31-Dec-16	**4 529**	**11 066**	**3 815**	**19 410**

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

30 RISK MANAGEMENT

The activities of the Company are exposed to various risks. Risk management therefore is a critical component of its insurance activities. Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls. Each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent in the Company's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Company's risk management policies in relation to those risks follows.

Governance framework

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

The Company has established a risk management function with terms of reference for the executive management board. Management board delegates to respective members of senior management responsibilities for overseeing compliance with established risk management policies.

The management board approves the Company risk management policies and meets regularly to approve on any commercial, regulatory and own organizational requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.

- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.

- To retain financial flexibility by maintaining strong liquidity and access to funds available from financial institutions.

- To maintain financial strength, to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates. Such 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 part of insurance companies to meet unforeseen liabilities as these arise. The Company's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the regulatory directives.

30 RISK MANAGEMENT (Continued)

Approach to capital management

The Company seeks to optimize the structure and sources of capital to ensure that it consistently maximizes returns to shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated manner, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company.

The Company has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Company establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Company primarily uses loss ratio and combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue. The Company's loss ratios and combined ratios calculated on a net basis were as follows:

	2016	2015
Loss ratio	(153%)	66%
Expense ratio	393%	89%

The business of the Company comprises both life and general insurance contracts.

(1) Life insurance contracts

The Company writes life insurance contracts, where the life of the policyholder is insured against death or permanent disability, usually for a pre-determined amount.

The table below sets out the concentration of insured life benefits across 4 bands (band limits are in thousands of GEL).

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(1) Life insurance contracts (continued)

	Gross claims liabilities	Reinsurers share of claims liabilities	Net claims liabilities
Claims liabilities per life insured at 31/12/2016			
0-100 thousand GEL	129	-	129
100-200 thousand GEL	-	-	-
200-1000 thousand GEL	-	-	-
Greater than 1,000 thousand GEL	-	-	-
Total	**129**	**-**	**129**
Claims liabilities per life insured at 31/12/2015			
0-100 thousand GEL	102	-	102
100-200 thousand GEL	-	-	-
200-1000 thousand GEL	-	-	-
Greater than 1,000 thousand GEL	-	-	-
Total	**102**	**-**	**102**

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all cost. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Currently, insured risks do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis. For contracts where death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The geographical concentration of the Company's insurance liabilities at 31 December 2016 and 2015 is as follows. The disclosure is based on the countries where the insurance business is written. Direct insurance business written is taken in Georgia.

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(1) Life insurance contracts (continued)

	Gross claims liabilities	Reinsurers share of claims liabilities	Net claims liabilities
Claims liabilities per life insured at 31/12/2016			
Georgia	129	-	129
TOTAL	**129**	**-**	**129**
Claims liabilities per life insured at 31/12/2015			
Georgia	102	-	102
TOTAL	**102**	**-**	**102**

(2) General insurance contracts

The Company principally issues the following types of general insurance contracts: third party motor own damage, property, financial risks, health, guarantees, cargo, freight forwarding liability, general third party liability, motor third party liability, professional indemnity, aviation hull, aviation TPL. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from changes in loss frequency and loss severity. For healthcare contracts the most significant risks arise from lifestyle changes and epidemic.

These risks vary significantly in relation to the type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuit 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 as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The table below sets out the concentration of general insurance contract liabilities by type of contract.

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(2) General insurance contracts (continued)

	2016			2015		
	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Aviation	7 557	7554	3	5 727	5 725	2
Healthcare	895	864	31	943	-	943
Motor	316	10	306	178	6	172
Liability	1 069	895	174	845	766	79
Property	546	482	64	135	82	53
Agriculture	102	42	60	86	69	17
Cargo	108	53	55	6	-	6
Personal accident	44	25	19	35	-	35
Travel	105	-	105	47	-	47
Financial risks	8	-	8	6	-	6
Guarantees	-	-	-		-	-
Total	**10 750**	**9 925**	**825**	**8 008**	**6 648**	**1 360**

For general insurance contracts, the most significant risks arise from changes in loss frequency and loss severity in motor and financial risks insurance and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Company, and the type of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies. The Company establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Company also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Business ceded is placed on different terms (quota share, excess of loss) with retention limits varying by product line and territory. 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 consolidated statement of financial position as reinsurance assets.

The geographical concentration of the Company's insurance liabilities at 31 December 2016 and 2015 is as follows. The disclosure is based on the countries where the insurance business is written. Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia.

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(2) General insurance contracts (continued)

	2016			2015		
	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Georgia	10 750	9 925	825	8 008	6 648	1 360
Total	**10 750**	**9 925**	**825**	**8 008**	**6 648**	**1 360**

Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk it accepts through a comprehensive group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment,

The following is a brief description of how the Company manages its credit risk exposure:

Reinsurance

Even though the Company may have 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 assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract. There is no single counterparty exposure that exceeds 45% of total reinsurance assets at the reporting date. The Company evaluates the financial condition of its reinsurers regularly.

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(1) Credit risk (continued)

Loans issued and receivables

The Company sets the maximum amounts and limits that may be advanced to / placed with individual corporate counterparties which are set by reference to their long term 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 on the expiry of which the policy is either paid up or terminated.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company through internal credit assessment procedures. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Company's credit assessment system.

	Notes	Neither past due nor impaired 2016	Past-due but not impaired 2016	Total 2016
Amounts due from credit institutions	6	2 691	-	2 691
Insurance and reinsurance receivables:	7			
Insurance receivables		3 432	569	4 001
Reinsurance receivables				
Total		**6 123**	**569**	**6 692**

	Notes	Neither past due nor impaired 2015	Past-due but not impaired 2015	Total 2015
Amounts due from credit institutions	6	3 071	-	3 071
Insurance and reinsurance receivables:	7			
Insurance receivables		3 317	598	3 915
Reinsurance receivables				
Total		**6 388**	**598**	**6 986**

Insurance and reinsurance receivables that are neither past due nor impaired include insurance and reinsurance receivables that are not past due more than 30 days as of the reporting date. Insurance and reinsurance receivables that are past due but not impaired include insurance and reinsurance receivables overdue for more than 30 days. The Company does not have a credit rating system to evaluate past due but not impaired receivables.

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and the maturity of debt securities.

The Company manages liquidity through a Company liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The table below analyses assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31-Dec-16	**Within one year**	**More than one year**	**Total**
Assets:			
Cash and cash equivalents	1 129	-	**1 129**
Amounts due from credit institutions	2 691	-	**2 691**
Insurance and reinsurance receivables	4 001	-	**4 001**
Reinsurance assets	7 162	6 411	**13 573**
Loans issued and receivables	1 399	-	**1 399**
Current income tax asset	16	-	**16**
Deferred income tax asset	-	3 078	**3 078**
Other assets	5 051	-	**5 051**
Total assets	**21 449**	**9 489**	**30 938**
Liabilities:			
Insurance contract liabilities	9 537	6 411	**15 948**
Other insurance liabilities	4 407	-	**4 407**
Financial liabilities	2 778	3 176	**5 954**
Deferred income tax liability	-	-	-
Other liabilities	4 336	-	**4 336**
Total liabilities	**21 058**	**9 587**	**30 645**
Net position	**391**	**(98)**	**293**
Accumulated gap		***391***	***293***

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(2) Liquidity risk (continued)

31-Dec-15	Within one year	More than one year	Total
Assets:			
Cash and cash equivalents		-	3 141
Amounts due from credit institutions		-	3 071
Insurance and reinsurance receivables	3 915	-	3 915
Reinsurance assets	2 162	6 999	9 161
Loans issued and receivables	2 418	-	2 418
Current income tax asset	670	-	670
Deferred income tax asset	-	2 538	2 538
Other assets	5 090		5 090
Total assets	**20 467**	**9 537**	**30 004**
Liabilities:			
Insurance contract liabilities		6 999	13 976
Other insurance liabilities	6 266	-	6 266
Financial liabilities	3 334	3 541	6 875
Deferred income tax liability	-	-	-
Other liabilities	4 142	-	4 142
Total liabilities	**20 539**	**10 540**	**31 079**
Net position	**(72)**	**(1 003)**	**(1 075)**
Accumulated gap		***(72)***	***(1 075)***

The amounts and maturities in respect of insurance liabilities are based on management's best estimate based on statistical techniques and past experience.

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(2) Liquidity risk (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2016					
Financial liabilities	2 778	-	3 176	-	5 954
Total undiscounted financial liabilities	**2 778**	**-**	**3 176**	**-**	**5 954**
As at 31 December 2015					
Financial liabilities	2 205	1 091	3 579	-	6 875
Total undiscounted financial liabilities	**2 205**	**1 091**	**3 579**	**-**	**6 875**

Geographical concentration

The geographical concentration of the Company's assets and liabilities at 31 December 2016 and 2015 is as follows. The disclosure is based on the countries where the insurance business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2016				
Assets:				
Loans issued and receivables	1 399	-	-	**1 399**
Reinsurance assets	1 172	7 157	5 244	**13 573**
Deferred income tax assets	3 078	-	-	**3 078**
Current income tax assets	16	-	-	**16**
Other assets	5 051	-	-	**5 051**
Insurance and reinsurance receivables	4 001	-	-	**4 001**
Amounts due from credit institutions	2 691	-	-	**2 691**
Cash and cash equivalents	1 129	-	-	**1 129**
Total assets	**18 537**	**7 157**	**5 244**	**30 938**

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

Geographical concentration (Continued)

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2016				
Liabilities:				
Insurance contracts liabilities	15 948	-	-	**15 948**
Other insurance liabilities	1 315	1 618	1 474	**4 407**
Financial liabilities	5 954	-	-	**5 954**
Other liabilities	4 336	-	-	**4 336**
Total liabilities	**27 553**	**1 618**	**1 474**	**30 645**
Net position	**(9 016)**	**5 539**	**3 770**	**293**

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2015				
Assets:				
Loans issued and receivables	2 418	-	-	**2 418**
Reinsurance assets	164	6 963	2 034	**9 161**
Deferred income tax assets	2 538	-	-	**2 538**
Current income tax assets	670	-	-	**670**
Other assets	5 090	-	-	**5 090**
Insurance and reinsurance receivables	3 915	-	-	**3 915**
Amounts due from credit institutions	3 071	-	-	**3 071**
Cash and cash equivalents	3 141	-	-	**3 141**
Total assets	**21 007**	**6 963**	**2 034**	**30 004**

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2015				
Liabilities:				
Insurance contracts liabilities	13 796	-	-	**13 796**
Other insurance liabilities	4 027	1 240	999	**6 266**
Financial liabilities	6 875	-	-	**6 875**
Other liabilities	4 142	-	-	**4 142**
Total liabilities	**28 840**	**1 240**	**999**	**31 079**
Net position	**(7 833)**	**5 723**	**1 035**	**(1 075)**

30 RISK MANAGEMENT (Continued)

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges.

The Company has exposure to market risks. Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company structures levels of market risk it accepts through a Company market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or Company of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment, periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins.

Interest rate risk

All financial instruments bear fixed interest rate. Thus no significant interest risk exposure currently exists.

Currency risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company's principal transactions are carried out in Georgian lari and its exposure to foreign exchange risk arise primarily with respect to US dollars and euro, as the insurance operations denominated in US dollars form a significant part of the Company's operations.

The Company’s financial assets are primarily denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2016 and 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase:

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

	2016			
	GEL	**USD**	**EUR**	Total
Financial assets:				
Cash and cash equivalents	964	163	2	**1 129**
Amounts due from credit institutions	300	2 279	112	**2 691**
Loans issued and receivables	64	1 335	-	**1 399**
Insurance and reinsurance receivables	1 702	2 254	45	**4 001**
Reinsurance assets	5 299	8 241	33	**13 573**
Total financial assets	**8 329**	**14 272**	**192**	**22 793**
Financial liabilities:				
Insurance contracts liabilities	6 639	9 211	98	**15 948**
Other insurance liabilities	881	3 511	15	**4 407**
Financial liabilities	286	5 668	-	**5 954**
Other liabilities	4 336	-	-	**4 336**
Total financial liabilities	**12 142**	**18 390**	**113**	**30 645**
Net position	**(3 813)**	**(4 118)**	**79**	**(7 852)**
Increase in currency rate in %		***11%***	***7%***	
Effect on profit		***(433)***	***5***	

	2015			
	GEL	**USD**	**EUR**	Total
Financial assets:				
Cash and cash equivalents	1 245	1 873	23	**3 141**
Amounts due from credit institutions	1 001	1 965	105	**3 071**
Loans issued and receivables	75	2 343	-	**2 418**
Insurance and reinsurance receivables	1 646	2 220	49	**3 915**
Reinsurance assets	924	8 225	12	**9 161**
Total financial assets	**4 891**	**16 626**	**189**	**21 706**
Financial liabilities:				
Insurance contracts liabilities	4 435	9 229	132	**13 796**
Other insurance liabilities	2 880	3 382	4	**6 266**
Financial liabilities	1 907	4 968	-	**6 875**
Other liabilities	4 142	-	-	**4 142**
Total financial liabilities	**13 364**	**17 579**	**136**	**31 079**
Net position	**(8 473)**	**(953)**	**53**	**(9 373)**
Increase in currency rate in %		***29%***	***16%***	
Effect on profit		***(272)***	***8***	

Amounts expressed in thousands of GEL

30 RISK MANAGEMENT (Continued)

The Company's principal cash flows (revenues, operating expenses) are largely generated in Georgian lari. As a result, future movements in the exchange rate between the Georgian lari and US dollar will affect the carrying value of the Company's US dollar denominated monetary assets and liabilities. Such changes may also affect the Company's ability to realize investments in non-monetary assets as measured in USD in these financial statements.

Price risk

The Company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. The Company did not have such financial assets or liabilities as of 31 December 2016 and 2015.

31 RELATED PARTY TRANSACTIONS

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2016		2015	
	Parent	Entities under common control	Parent	Entities under common control
Assets				
Loans issued and receivables				
Insurance and reinsurance receivables	-	-	7	-
Other assets				
	-	-	**7**	
Liabilities				
Loans payable	2 760	-	-	-
Dividends payable				
Other liabilities				
	2 760	-	-	
Income and expenses				
Insurance premium	7	-	3	-
Interest income for financial liabilities				
Interest expense for financial liabilities	11	-	-	-
Other expenses				
	18	-	**3**	-

Amounts expressed in thousands of GEL

31 RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel (2016: 4 persons; 2014: 3 persons) comprised the following:

	2016	2015
Salaries and bonuses	333	644
Total key management compensation	**333**	**644**

Remuneration of Consultation Committee (2016: 1 member, 2015: 5 members) comprised the following:

	2016	2015
Salaries and other benefits	75	269
Total Consultation Committee remuneration	**75**	**269**

Members of the committee are responsible for provision of consultations regarding the strategic directions of the Company.

32 GOING CONCERN CONSIDERATIONS

These financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the normal course of business of the Group.

The management believes that the Group will continue its operations in the foreseeable future without significant limitations.

At the reporting date the Group's equity (at December 31, 2016: GEL 4,788, including GEL 3,288 accumulated profit) is well above required minimum capital.

33 EVENTS AFTER REPORTING DATE

In 2017 the Company sold out shares in the below subsidiaries: AlliansMedi+ LLC, Medical Park Georgia LLC, Bolnisi District Hospital LLC, Bolnisi District Adults Polyclinic LLC, Diagnostics - 2000 LLC, and Bolnisi District Emergency Service - 03 LLC. Their accumulated capital was GEL 2,296 (thousand), while sale price was GEL 2,702 (thousand).

In 2017 the lawsuit on the loan issued to "IberMeat Georgia" LLC was completed, and on February 22, 2017, the Company received the amount from sale of the property following the execution process. The Company purchased the same property through the auction and after including it in the balance sheet, reassessed the property at market value, as estimated by a certified auditor. In the result, the net value of the loan issued to "IberMeat Georgia" LLC was adjusted, and impairment was increased by GEL 805 (thousand).