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Independent Auditor's Report

To the Shareholder and Management of TBC Insurance JSC

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TBC Insurance JSC (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit and loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. Other information comprises Management Report prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we are required to express an opinion whether certain parts of Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We will issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit. Our updated report will include also our opinion mentioned in the preceding paragraph.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

16 April 2018
Tbilisi, Georgia

TBC Insurance JSC

International Financial Reporting Standards
Financial Statements
31 December 2017

Contents

Financial Statement Captions '000 GEL	Notes	31-Dec-17	31-Dec-16
Property and equipment	9	839	448
Intangible Assets	10	427	255
Deferred Acquisition Costs	8	747	368
Reinsurance Assets	13	8,272	72
Deferred Tax Asset	11	105	250
Insurance and Reinsurance receivables	7	12,168	2,371
Other Assets	12	173	176
Bank Deposits	6	4,924	3,612
Cash and cash equivalents	5	6,368	2,016
Total Assets:		**34,023**	**9,568**
Share Capital	16	(6,682)	(6,682)
Other reserves		(20)	
Retained earnings, including:		1,357	2,212
- (Profit) / Loss for the year		(855)	900
Total Equity:		**(5,345)**	**(4,470)**
Insurance contract provisions	13	(14,781)	(4,491)
Insurance and reinsurance payables	14	(9,742)	(293)
Other Liabilities	15	(4,155)	(314)
Total Liabilities:		**(28,678)**	**(5,098)**
Total Liabilities & Equity		**(34,023)**	**(9,568)**

David Kiguradze
Deputy General Director

Shota Tsiskarashvili
Head of Budgeting and IFRS Reporting

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 5 to 41.

Financial Statement Captions ’000 GEL	**Notes**	**2017**	**2016**
Gross Written Premiums		31,317	7,238
Written Premiums Ceded to Reinsurers		(13,562)	164
Net premiums written		**17,755**	**7,402**
Change in the Gross Provision for Unearned Premiums		(8,054)	(94)
Reinsurers' share of Change in the Provision of Unearned Premiums		7,154	(623)
Net earned premiums	**17**	**16,855**	**6,685**
Other income	**18**	2,339	(27)
Total Income		**19,194**	**6,658**
Claims Settled		(9,164)	(4,425)
Reinsurance Share in Claims Paid		3,467	493
Change in outstanding Claims		(2,236)	78
Reinsurance Share in Change in outstanding Claims		1,046	(230)
Subrogation and Recoveries		313	311
Expenses Associated with Claims		(50)	(32)
Net Claims Incurred	**19**	**(6,624)**	**(3,805)**
Acquisition Costs	**20**	(6,112)	(982)
Salaries & other employee benefits	**21**	(2,801)	(1,014)
General and administrative expenses	**22**	(2,084)	(885)
Depreciation	**9,10**	(374)	(193)
Impairment charge	**7**	(165)	(797)
Foreign exchange gain/losses		(34)	114
Income/(loss) before tax		**1,000**	**(904)**
Income tax (expense)/credit	**11**	(145)	4
Net income/(loss)		**855**	**(900)**

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 5 to 41.

’000 GEL	Notes	2017	2016
Cash flows from operating activities			
Profit / (Loss) before Income Tax		1,000	(904)
Adjustments for:			
Depreciation & Amortisation		374	193
Interest Income		(642)	(132)
Impairment of Insurance Receivables		(165)	(736)
FX Gain/(Loss)		34	(114)
Other non-cash operating costs		20	-
Changes in:			
Deferred acquisition cost		(379)	(101)
Premium reserves, net of reinsurance		900	717
Outstanding claims, net of reinsurance		648	153
Incurred but not reported claims, net of reinsurance		542	-
Insurance & reinsurance receivables		(9,154)	3,544
Other assets		1	48
Insurance payables		4,315	196
Reinsurance and other liabilities		8,469	(2,995)
Cash flows from operating activities		**5,963**	**(131)**
Cash flows from investing activities			
Acquisition of property and equipment		(617)	(166)
Acquisition of intangible assets		(320)	(133)
Change in placements with banks		(1,312)	(2,345)
Interest received		529	237
Net cash used in investing activities		**(1,720)**	**(2,407)**
Cash flows from financing activities			
Proceeds from issue of share capital		-	4,050
Net cash from financing activities		**-**	**4,050**
Net (decrease)/increase in cash and cash equivalents		**4,243**	**1,512**
Cash and cash equivalents at 1 January		2,016	504
Effect of exchange rate on cash and cash equivalents		109	
Cash and cash equivalents at 31 December		**6,368**	**2,016**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 5 to 41.

'000 GEL	Share Capital	Other Reserves	Retained Earnings	Total
Balance as at 1 January 2016	2,632		(1,312)	1,320
Loss for the year			(900)	(900)
Total Comprehensive loss for the Year	**-**	**-**	**(900)**	**(900)**
Issue of Share Capital	4,050			4,050
Balance as at 31 December 2016	**6,682**	**-**	**(2,212)**	**4,470**
	-		-	
Balance as at 1 January 2017	6,682		(2,212)	4,470
Profit for the year			855	855
Total comprehensive income for the year	**-**	**-**	**855**	**855**
Share based payment accrual		20		20
Balance as at 31 December 2017	**6,682**	**20**	**(1,357)**	**5,345**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 5 to 41.

1 Reporting entity

(a) Organization and operations

TBC Insurance JSC ("the Company") is a Georgian joint stock company as defined in the Law on Entrepreneurs of Georgia and was incorporated on 8 May 2014.

The Company is licensed to provide non-life and life insurance services in Georgia, issued by the Insurance State Supervision Service of Georgia on 14 July 2014 and 1 December 2016, respectively. During 2017, TBC Insurance JSC provided insurance services in property and casualty, mainly in motor, life and property insurance and other non-health segments. TBC Insurance registering body is LEPL National Agency of Public Registry. TBC insurance registered address and place of business is Al. Kazbegi Avenue, N24b, III Floor, Tbilisi, Georgia. TBC insurance registered number is 405042804.

(b) Georgian business environment

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

2 Basis of accounting

Statement of compliance

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

3 Functional and presentation currency

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

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

4 Use of estimates and judgements

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

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

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

In the opinion of management, there are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Assumptions and sensitivities

Process used to determine the assumptions

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

Provision is made at the statement of financial position date for the expected ultimate cost of settlement of all claims notified in respect of events up to that date, whether reported or not, less amounts already paid.

The company makes estimate of the ultimate liability arising from claims under life insurance contracts that are incurred but not yet reported at the reporting date. The ultimate cost of IBNR is calculated by using standard actuarial methods such as chain-ladder method. The primary underlying assumption of the chain-ladder method is that historical loss development patterns are indicative of future loss development patterns.

The carrying amount of IBNR reserve net of reinsurance as at 31 December 2017 was GEL 542 thousand (2016: nil).

There are several sources of uncertainty that need to be considered in the estimation of the IBNR reserve. Sensitivity analysis shows that 5% increase in the chain-ladder development factors would increase IBNR reserve requirement by 78 thousand GEL, accordingly 5% decrease in the development factors would decrease IBNR reserve requirement by 78 thousand GEL, or 5% increase in reinsurance participation would decrease IBNR reserve requirement by 38 thousand GEL and accordingly 5% decrease in reinsurance participation would increase IBNR requirement by 38 thousand GEL.

Management believes that the reserve set up is adequate and there will be no need of additional reserve requirements.

5 Cash and cash equivalents

'000 GEL	**2017**	**2016**
Cash on Hand	3	9
Current Accounts	6,365	2,007

Total Cash and cash equivalents	**6,368**	**2,016**

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

6 Bank deposits

'000 GEL	**2017**	**2016**
JSC TBC Bank	3,070	2,411
JSC Tera Bank	1,001	-
JSC Finca Bank	540	-
JSC VTB Bank	313	-
JSC Bank of Georgia	-	801
JSC Bank Republic	-	300
JSC Procredit Bank	-	100
Total Bank deposits	**4,924**	**3,612**

2,200 thousand GEL from TBC bank deposits is attributable to minimum capital requirements set by the Insurance State Supervision Service of Georgia.

Credit ratings of placements with banks is as follows:

'000 GEL	**2017**	**2016**
BB	-	100
BB-	3,383	3,512
Not rated	1,541	-
Total	**4,924**	**3,612**

Bank deposits are represented by medium-term placements with Georgian Banks and earn annual interest of 10.5% to 12.25%. Bank deposits placed with related parties earn annual interest rate of 11% to 12%.

7 Insurance and reinsurance receivables

Insurance and reinsurance receivables as of 31 December comprise:

'000 GEL	**2017**	**2016**
Insurance Receivables, Gross:	**11,341**	**3,176**
Life Insurance contracts	*1,448*	*-*
General Insurance contracts	*9,893*	*3,176*

Less - provision for impairment for amounts due from policyholders:	**(970)**	**(805)**
Life Insurance contracts	-	-
General Insurance contracts	*(970)*	*(805)*
Insurance Receivables, Net:	**10,371**	**2,371**
Receivables from Reinsurer	644	-
Commission from Reinsurer	1,153	-
Total Receivables and commission from Reinsurer	**1,797**	**-**
Total Insurance and reinsurance receivables	**12,168**	**2,371**

There is no provision for life insurance contracts as management believes that all amounts are fully collectible.

8 Deferred acquisition cost

'000 GEL	**DAC**
At 1 January 2016	**267**
Deferred expenses	800
Amortisation of deferred expenses	(699)
At 31 December 2016	**368**
Deferred expenses	1,311
Amortisation of deferred expenses	(932)
At 31 December 2017	**747**

9 Property and equipment

'000 GEL	**Furniture and computer equipment**	**Motor vehicles**	**Leasehold improvements**	**Total**
Cost:				
Balance at 1 January 2016	312	69	153	534
Additions	123	4	41	168
Disposals	(2)	-	-	(2)
Balance at 31 December 2016	**433**	**73**	**194**	**700**
Balance at 1 January 2017	433	73	194	700
Additions	252	34	387	673
Disposals	(40)	(45)	(144)	(229)

Balance at 31 December 2017	**645**	**62**	**437**	**1,144**
Accumulated Depreciation:				
Balance at 1 January 2016	60	5	21	86
Charge for the year	63	7	96	166
Disposals	-	-	-	-
Balance at 31 December 2016	**123**	**12**	**117**	**252**
Balance at 1 January 2017	123	12	117	252
Charge for the year	108	6	111	225
Disposals	(20)	(8)	(144)	(172)
Balance at 31 December 2017	**211**	**10**	**84**	**305**
Net Book Value				
31 December 2016	**310**	**61**	**77**	**448**
31 December 2017	**434**	**52**	**353**	**839**

10 Intangible assets

'000 GEL	**Licenses**	**Computer & Other software**	**Total**
Cost:			
Balance at 1 January 2016	-	160	160
Additions	26	106	132
Disposals	-	-	-
Balance at 31 December 2016	**26**	**266**	**292**
Balance at 1 January 2017	26	266	292
Additions	41	279	320
Disposals	-	(16)	(16)
Balance at 31 December 2017	**67**	**529**	**596**
Accumulated Depreciation:			
Balance at 1 January 2016	-	10	10
Charge for the year	2	25	27
Disposals	-	-	-
Balance at 31 December 2016	**2**	**35**	**37**
Balance at 1 January 2017	2	35	37
Charge for the year	42	107	149
Disposals	-	(17)	(17)
Balance at 31 December 2017	**44**	**125**	**169**
Net Book Value			
31 December 2016	**24**	**231**	**255**
31 December 2017	**23**	**404**	**427**

11 Deferred tax asset

The Company's applicable tax rate is the income tax rate of 15% that approximates to the Company's effective tax rate.

'000 GEL	**2017**	**2016**
Deferred tax charge		
Origination of temporary differences	(145)	4
	(145)	**4**

Movement in temporary differences during the period:

'000 GEL	**1 January 2017**	**Recognised in profit or loss**	**31 December 2017**
Property and equipment	(21)	(7)	(28)
Deferred acquisition costs	-	(71)	(71)
Tax loss carry forwards	271	(67)	204
Net deferred tax asset	**250**	**(145)**	**105**

'000 GEL	**1 January 2016**	**Recognised in profit or loss**	**31 December 2016**
Property and equipment	(50)	29	(21)
Deferred acquisition costs	(33)	33	-
Other	(45)	45	-
Tax loss carry forwards	374	(103)	271
Net deferred tax asset	**246**	**4**	**250**

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

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

Management believes that company will have sufficient taxable profits against which the company can fully utilise remaining deferred tax asset of 105 thousand GEL.

12 Other assets

'000 GEL	**2017**	**2016**
Prepayments for other assets	119	98
Inventories	30	10
Receivables from regression	-	61
Other receivables	24	7
Total Other Assets	**173**	**176**

13 Insurance contract provisions and reinsurance assets

'000 GEL	2017	2016
Insurance contract provisions		
Unearned premiums provision	11,931	3,876
Reported but not settled claims	2,308	615
Incurred but not reported claims	542	-
Total insurance contract provisions	**14,781**	**4,491**
Reinsurance assets		
Unearned premiums provision	(7,207)	(53)
Reported but not settled claims	(1,065)	(19)
Total reinsurance assets	**(8,272)**	**(72)**
Insurance contracts liabilities net of reinsurance		
Unearned premiums provision	4,724	3,823
Reported but not settled claims	1,243	596
Incurred but not reported claims	542	-
Total insurance contracts liabilities net of reinsurance	**6,509**	**4,419**

RBNS Reserve - '000 GEL	2017			2016		
	Reported but not settled claims	**Reinsurers share of Reported but not settled claims**	**Net**	**Reported but not settled claims**	**Reinsurers share of Reported but not settled claims**	**Net**
Life Insurance	1,033	(455)	578	-	-	-
Motor Insurance	1,061	(610)	451	607	(19)	588
Property Insurance	83	-	83	6	-	6
Other	131	-	131	2	-	2
Total	**2,308**	**(1,065)**	**1,243**	**615**	**(19)**	**596**

Incurred but not reported claims reserve is only created for life insurance purposes due to its natural lag between accident date and reporting date of claim.

Insurance contract provisions and reinsurance assets (continued)

	'000 GEL	2017			2016		
		Insurance contract provisions	**Reinsurers' share of Insurance contract provisions**	**Net**	**Insurance contract provisions**	**Reinsurers' share of Insurance contract provisions**	**Net**
a	Life insurance contracts	1,575	(455)	1,120	-	-	-
b	General insurance contracts	13,206	(7,817)	5,389	4,491	(72)	4,419
	Total insurance contract provisions	**14,781**	**(8,272)**	**6,509**	**4,491**	**(72)**	**4,419**

		2017			2016		
	'000 GEL	Insurance contract provisions	Reinsurers' share of Insurance contract provisions	Net	Insurance contract provisions	Reinsurers' share of Insurance contract provisions	Net
a	**At 1 January**	-	-	-	-	-	-
	Premiums written during the year	9,397	(1,991)	7,406	-	-	-
	Premiums earned during the year	(9,397)	1,991	(7,406)	-	-	-
	Claims incurred during the year	2,298	(1,025)	1,273	-	-	-
	Claims paid during the year	(1,265)	570	(695)	-	-	-
	Incurred but not reported claims	542	-	542	-	-	-
	At 31 December	**1,575**	**(455)**	**1,120**	**-**	**-**	**-**

		2017			2016		
	'000 GEL	Insurance contract provisions	Reinsurers' share of Insurance contract provisions	Net	Insurance contract provisions	Reinsurers' share of Insurance contract provisions	Net
b	**At 1 January**	**4,491**	**(72)**	**4,419**	**4,475**	**(925)**	**3,550**
	Premiums written during the year	21,920	(11,571)	10,349	7,238	164	7,402
	Premiums earned during the year	(13,866)	4,417	(9,449)	(7,144)	459	(6,685)
	Claims incurred during the year	8,560	(3,488)	5,072	4,347	(263)	4,084
	Claims paid during the year	(7,899)	2,897	(5,002)	(4,425)	493	(3,932)
	At 31 December	**13,206**	**(7,817)**	**5,389**	**4,491**	**(72)**	**4,419**

14 Insurance and reinsurance payables

'000 GEL	2017	2016
Insurance commission payable	4,573	258
Reinsurance payables	5,169	35
Total insurance and reinsurance payables	**9,742**	**293**

15 Other liabilities

'000 GEL	2017	2016
Reinsurance commission reserve	2,696	-
Trade payables	617	119
Advances received	472	142
Accruals for employee compensation	256	43
Other liabilities	114	10
Total other liabilities	**4,155**	**314**

Reinsurance commission reserve above is attributable to unearned portion of commission receivable from reinsurer.

16 Equity

(a) Share capital

Number of shares unless otherwise stated	31 December 2017	31 December 2016
Par value	GEL 1	GEL 1
On issue, fully paid	**6,681,870**	**6,681,870**

As at 31 December 2017, the Company had an authorized share capital of 15,000,000 (31 December 2016: 15,000,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

In accordance with Georgian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with IFRSs.

No dividends were declared or paid in 2017.

17 Net earned premiums

'000 GEL	Note	2017	2016
Premium written on life insurance contracts	13	9,397	-
Premium written on general insurance contracts	13	21,920	7,238
Total premiums written		**31,317**	**7,238**
Change in gross provision for life unearned premiums		-	
Change in gross provision for general unearned premiums		(8,054)	(94)
Total earned premiums		**23,263**	**7,144**
Reinsurers earned premium on life insurance contracts		(1,991)	-
Reinsurers earned premium on general insurance contracts		(4,417)	(459)
Total net earned premiums		**16,855**	**6,685**

18 Other income

'000 GEL	2017	2016
Commission Income Reins	1,571	(194)
Investment Income	642	132
Other Income	126	35
Total other income	**2,339**	**(27)**

19 Net claims incurred

'000 GEL	2017	2016
Life insurance claims paid	(1,265)	-
General insurance claims paid	(7,899)	(4,425)
Reinsurer's share of life insurance claims paid	570	-
Reinsurer's share of general insurance claims paid	2,897	493
Total net claims paid	**(5,697)**	**(3,932)**
Gross change in reported but not settled claims	(1,694)	78
Incurred but not reported claims	(542)	-
Reinsurer's share of change in reported but not settled claims	1,046	(230)
Subrogation and Recoveries	313	311
Expenses Associated with Claims	(50)	(32)
Net claims incurred	**(6,624)**	**(3,805)**

Distribution of claims incurred for contracts entered into force during 2017 and 2016 between product types are set out below:

'000 GEL - 2017	Claims paid	Reported but not settled claims	Total Claims	Claims paid Reins	Reported but not settled claims Reins	Total Claims Reins
Life Insurance	1,264	1,033	2,297	570	455	1,025
Motor Insurance	4,916	878	5,794	2,834	594	3,428
Property Insurance	149	83	232	-	-	-
Other	96	131	227	-	-	-
Total	**6,425**	**2,125**	**8,550**	**3,404**	**1,049**	**4,453**

'000 GEL - 2016	Claims paid	Reported but not settled claims	Total Claims	Claims paid Reins	Reported but not settled claims Reins	Total Claims Reins
Life Insurance	-	-	-	-	-	-
Motor Insurance	2,143	609	2,752	-	19	19
Property Insurance	24	6	30	8	-	8
Other	13	2	15	-	-	-
Total	**2,180**	**617**	**2,797**	**8**	**19**	**27**

20 Acquisition costs

'000 GEL	2017	2016
Acquisition costs	(6,491)	(1,083)
Acquisition costs deferred	1,311	800
Amortisation of deferred acquisition costs	(932)	(699)
Total acquisition costs	**(6,112)**	**(982)**

21 Salaries and other employee benefits

'000 GEL	2017	2016
Salaries	(1,987)	(793)

Bonuses	(696)	(217)
Share-based compensation	(28)	-
Insurance and other benefits	(90)	(4)
Total salaries & other employee benefits	**(2,801)**	**(1,014)**

22 General and administrative expenses

	2017	**2016**
Marketing and PR	(451)	(89)
Office Rent	(422)	(270)
Software and Technical Support	(241)	(6)
Professional services	(195)	(101)
Office purchases	(123)	(33)
Post, Telecomm, Utilities	(120)	(64)
Business trips	(21)	(4)
Other Admin Costs	(511)	(318)
Total General and administrative expenses	**(2,084)**	**(885)**

Professional service fee above includes GEL 101 thousand (2016: GEL 48 thousand) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

23 Capital Management

(a) Capital management objectives, policies and approach

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

- Compliance with the requirements of the Insurance State Supervision Services of Georgia;
- Maintain financial strength to support new business growth and to satisfy the requirements of policyholders, regulator and other stakeholders;
- Maintaining the composition and structure of the assets accepted to cover insurance liabilities, when due and to exceed regulatory requirements; and
- Maintaining the required level of stability of the Company thereby providing a degree of security to policyholders.

It is in the Company's interest to maintain adequate capital resources at all times and to fulfil respective minimum regulatory capital requirements. The primary source of capital used by the Company is financed through the issuance of shares. Maintaining a good capital base in the future is of crucial importance to the Company, both to allow the Company to take advantage of profitable growth opportunities and to cushion the effects of large loss events.

As part of the process monitoring and managing its capital, the Company has implemented controls over conformity of the composition and structure of the assets, enabling the Company to constantly maintain a minimum level of funds, placed in top Georgian banks.

The insurance sector in Georgia is regulated by the Insurance State Supervision Service of Georgia (“ISSSG”). The ISSSG imposes minimum capital requirements for insurance companies. These requirements are put in place to ensure sufficient solvency margins.

ISSSG sets regulatory capital requirements in Georgia. ISSSG requirement is to maintain capital of GEL 2,200, of which 100% percent should be kept at the banking institutions licensed in Georgia.

JSC Insurance company TBC Insurance has regularly complied with capital requirements set by ISSSG during 2016 and 2017.

(b) Regulatory requirements

According to the ISSSG directive №04, issued on 20 April 2015, the minimum capital throughout the period should be not less than GEL 2,200 thousand and the Company should, at all times, maintain total of this amount in either cash and cash equivalents or in bank balances. Minimum capital requirement will rise from December 2018 to GEL 4,200 thousand.

The Company was in compliance with the externally imposed capital requirements as at 31 December 2017.

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

- The Regulatory Capital should be not less than either 50% of RSM or GEL 2,200 thousand throughout the period from 1 January 2017 to 1 July 2017;

- The Regulatory Capital should be not less than either 75% of RSM or GEL 2,200 thousand throughout the period from 1 July 2017 to 1 January 2018; and

- The Regulatory Capital should be at least either 100% of RSM or GEL 2,200 thousand throughout the period from 1 January 2018.

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

As at the date these financial statements were authorized for issue, the Company was in full compliance with the level of Regulatory Capital in respect of 100% of RSM.

24 Insurance risk management

(a) Risk management objectives and policies for mitigating insurance risk

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

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

(i) Underwriting strategy

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

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

Adherence to the underwriting guidelines is monitored by the Deputy General Director on an on-going basis.

(ii) Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys Treaty reinsurance for the biggest lines of business, Life, Casco and Property and also Facultatively Reinsures every risk in the above-mentioned products that fall out of the Treaty Reinsurance limitations.

Ceded reinsurance contains credit risk, and such reinsurance recoverable are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an on-going basis and reviews its reinsurance arrangements periodically.

(b) Terms and conditions of insurance contracts and nature of risks covered

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

(i) Motor insurance

Product features

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

Management of risk

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

The frequency of claims is affected by adverse weather conditions, and the volume of claims is higher in the winter months.

Motor lines of insurance are underwritten based on the Company’s current experience. The Company reinsures its Casco risks by treaty reinsurance contract, which limits the Company’s exposure to 30% of ultimate net loss for each and every loss occurrence.

(ii) Property insurance

Product features

The Company writes property insurance. This is comprised of corporate and retail property insurance. Property insurance indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property.

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

Management of risk

The key risks associated with this product are underwriting risk, competitive risk and claims experience risk (including the variable incidence of natural disasters). The Company is also exposed to the risk of exaggeration and dishonest action by claimants.

Underwriting risk is the risk that the Company does not charge premiums appropriate for the different properties it insures. Many commercial property proposals comprise a unique combination of location, type of business, and safety measures in place. Calculating a premium commensurate with the risk for these policies will be subjective, and hence risky.

These risks are managed primarily through the pricing and reinsurance processes. The Company uses strict underwriting criteria to ensure that the risk of losses is acceptable to the Company. The Company reinsures its property risks by way of Excess of Loss and Nat Cat treaties.

(iii) Life insurance

Product features

The company writes life insurance contracts where the event giving a rise to claim is the death or permanent disability of the beneficiary and the policyholder is insured for the remaining credit towards financial institution of for a pre-determined amount.

Management of risk

The company's underwriting strategy is to ensure that risks are well diversified by industry sectors and geography. The company also has right to reject payment in case a fraudulent claim is identified.

The company uses reinsurance contracts for all life insurance risks and the exposure of risk is either limited to 20% of total claim or maximum ten thousand USD.

One of the key risks associated with this product is the lag between the accident date and reporting date of the claim. Because of this risk, incurred but not reported claims reserve is set up for life insurance contracts, calculated according to the chain-ladder statistical methodology.

(c) Concentrations of insurance risk

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

Concentrations of risk can arise in both high-severity, low frequency events, such as natural disasters and in situations where underwriting is biased towards a particular group, such as a particular geography.

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

(d) Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is paid. However, the Company remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer, the Company considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed mainly from publicly available information. Main reinsurer's ratings during 2017 are presented below:

Reinsurer	Rating
SCOR	AA-
Swiss Re	AA-
Hannover Re	A+
VIG Re	A+
Polish Re	A-
Sava Re	A-
Trust Re	A-

25 Fair values and risk management

(a) Fair value of financial assets and liabilities

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

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

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

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

(unobservable inputs).

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

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31-December-2017				31-December-2016			
'000 GEL	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Cash and cash equivalents	-	6,368	-	**6,368**	-	2,016	-	**2,016**
Bank Deposits	-	4,924	-	**4,924**	-	3,612	-	**3,612**
Insurance and reinsurance receivables	-	12,168	-	**12,168**	-	2,371	-	**2,371**
Other financial assets	-	19	-	**19**	-	-	-	**-**
Total Assets	-	**23,479**	-	**23,479**	-	**7,999**	-	**7,999**
Insurance and reinsurance payables	-	9,742	-	**9,742**	-	293	-	**293**
Other financial liabilities	-	617	-	**617**	-	119	-	**119**
Total Liabilities	-	**10,359**	-	**10,359**	-	**412**	-	**412**

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

(b) Presentation of financial instruments by measurement category

For the measurement purposes, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. At the reporting date (as well as in financial year 2016) all financial assets were classified as (a) loans and receivables.

All of the Group’s financial liabilities were carried at amortised cost.

(c) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk.

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

(i) Risk management framework

The Supervisory Board together with the Company’s management has overall responsibility for the establishment and oversight of the Company’s risk management framework and is responsible for developing and monitoring the Company’s risk management policies and reporting regularly to the shareholders on its activities.

The Company’s risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The shareholders oversee how the Supervisory Board together with the Company’s management monitor compliance with the Company’s risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Company.

(ii) Credit risk

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

The Company’s exposure to credit risk is monitored on an ongoing basis.

The Company reinsures certain risks with the reinsurance companies. The selection of reinsurance companies is based on criteria mainly related to solvency, reliability and creditworthiness of the counterparty.

Credit exposure

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

	31 December 2017	31 December 2016
Insurance receivables	10,371	2,371
Reinsurance receivables	1,797	-
Bank Deposits	4,924	3,612
Cash and cash equivalents	6,368	2,016
Total credit exposure	**23,460**	**7,999**

The aging of insurance receivables at the reporting date was:

	Gross 2017	Impairment provision 2017	Gross 2016	Impairment provision 2016
Not past due	8,463	-	2,208	-
Past due 0-30 days	1,872	-	55	-
Past due 30-90 days	41	5	75	-
Past due 91-180 days	13	13	67	34
Past due 181-270 days	31	31	109	109
Past due 271-365 days	45	45	142	142
Past due more than one year	876	876	520	520
Total	**11,341**	**970**	**3,176**	**805**

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

Management believes that the unimpaired amounts that are not past due by 90 days are still collectible almost in full, based on either historic payment behaviour of the policyholders, or their individual risk profiles.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Company’s liquidity positions are reviewed by the management on a monthly basis.

Maturity profiles

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

(iv) Market risk

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

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

Currency risk

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

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

The Company is exposed to currency risk mainly on insurance receivables and payables denominated in USD and EUR. The Company's exposure to foreign currency risk was as follows:

'000 GEL	USD denominated 31 December 2017	EUR denominated 31 December 2017	USD denominated 31 December 2016	EUR denominated 31 December 2016
Cash and cash equivalents	237	5	6	10
Insurance & reinsurance receivables	9,384	346	2,839	54
Insurance and reinsurance payables	(4,782)	(183)	(23)	(6)
Other liabilities	(44)	-	(19)	-
Net Exposure	**4,795**	**168**	**2,803**	**58**

The following significant exchange rates have been applied:

	Average Rate	Reporting date spot rate
In GEL	**2017**	**31 December 2017**

USD	2.5086	2.5922
EUR	2.8322	3.1044

	Average Rate	Reporting date spot rate
In GEL	**2016**	**31 December 2016**
USD	2.3667	2.6468
EUR	2.6172	2.7940

Sensitivity analysis

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

'000 GEL	**Strengthening**	**Weakening**
	Profit or (Loss)	**Profit or (Loss)**
31 December 2017		
USD (10% movement)	(408)	408
EUR (10% movement)	(14)	14
31 December 2016		
USD (10% movement)	(238)	238
EUR (10% movement)	(5)	5

(v) Interest rate risk

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

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

26 Contingencies

(a) Legal proceedings

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

(b) Taxation contingencies

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

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

27 Related parties

(a) Parent and ultimate controlling party

As at 31 December 2017 and 2016 the Company's immediate and ultimate parent company was TBC Bank Group PLC.

(b) Key management remuneration

'000 GEL	2017	2016
Salaries and bonuses	509	200
Share-based compensation	28	
Total Key management compensation	**537**	**200**

(c) Transactions with other related parties

Transactions with other related parties include transactions with companies related to the parent company of the Company.

The outstanding balances and transactions as at and for the year ended 31 December 2017 with other related parties are as follows:

	Fellow Subsidiaries	Other
Assets		
Cash and cash equivalents	3,815	-
Bank deposits	3,070	-
Insurance receivables	2,045	29
Other assets	-	19
	8,930	**48**
Liabilities		
Insurance contract provisions	(1,177)	-
Insurance payables	(4,068)	-
	(5,245)	**-**
IS		
Earned Premium	12,348	52
Investment Income	411	-

Claims Settled	(1,609)	(32)
Acquisition Costs	(4,063)	-

The outstanding balances and transactions as at and for the year ended 31 December 2016 with other related parties are as follows:

	Fellow Subsidiaries
Assets	
Bank Deposits	2,700
Cash and cash equivalents	1,545
	4,245
Liabilities	
Insurance contract provisions	(17)
	(17)
IS	
Earned premiums	95
Claims paid	(22)

28 Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Foreign currency transactions

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

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

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

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

(b) Insurance contracts

(i) Classification of contracts

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

Insurance risk is risk other than financial risk.

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

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

Financial guarantee contracts are accounted for as insurance contracts.

Recognition and measurement of contracts

Premiums

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

Policy cancellations

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

Unearned premium provision

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

Claims

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

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

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

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

(ii) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the partial transfer of risk to reinsurers. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

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

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurance are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Premiums on reinsurance assumed are recognised as revenue and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

(iii) Deferred acquisition costs (DAC)

Acquisition costs, representing commissions paid to insurance agents and brokers and other costs directly related to acquisition are deferred and amortized over the period in which the related written premiums are earned, to the extent that these costs are recoverable out of future premiums. Deferred acquisition costs are reduced by commissions due on impaired insurance policies related to future periods.

(iv) Liability adequacy test

At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets for each line of business which are managed together. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses attributable to the unexpired periods of policies in force are used. If a shortfall is identified the related deferred acquisition cost is written down and, if necessary, an additional provision (unexpired risk provision) is established. The deficiency is recognised in profit or loss for the year. During 2017 and 2016 no shortfall was identified.

(v) Insurance receivables and payables

Amounts due to and from policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets. The Company reviews its insurance receivables to assess impairment on a regular basis.

(c) Financial instruments

The Company classifies non-derivative financial assets into the loans and receivables category. The Company classifies non-derivative financial liabilities into the other financial liabilities category.

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

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

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

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities - measurement

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

(iii) Offsetting

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

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

(iv) Gains and losses on subsequent measurement

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

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within other income or other expense in profit or loss.

(ii) Subsequent expenditure

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

(iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of furniture and equipment varies from 5 to 10 years; for leasehold improvements the useful life is the term of underlying lease or if not defined, not more than 7 years and useful life for motor vehicles is 10 years. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

The Group’s intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight-line basis over expected useful lives of 1 to 10 years

(f) Impairment

(i) Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment.

Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Income tax

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

(i) Current tax

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

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

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

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

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

(ii) Deferred tax

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

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

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

29 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy.

30 New Standards and Interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018, and which the Company has not early adopted.

The effects of the new standards and interpretations have not been fully examined. However, the Company is currently assessing their impact financial statements. No significant impact is expected for standards and interpretations that are mandatory for the annual period beginning on 1 January 2018.

- IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  - Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other

comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
- IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are

released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the de-recognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.
- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation.

Other new accounting pronouncements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).