JSC "PSP Insurance"

Consolidated Financial Report

together with the independent auditor's conclusion

for the year end December 31, 2017

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Independent Auditor's Conclusion

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

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The auditor's conclusion on consolidated financial reporting

Conclusion

We have held the audit on consolidated financial reporting for the JSC "PSP Insurance" and its subsidiary company "New Clinic" (hereinafter the Group), consisting of the consolidated financial situation for the year end December 31, 2017, the reports on consolidated own capital turnover, consolidated cash flow turnover for the current year ended on the mentioned date and the attached consolidated notes, including the significant accounting policies.

In our opinion, the submitted consolidated report truly and justly shows the Group's consolidated financial situation for the year end December 31, 2017, the consolidated financial results of the activities, the consolidated cash flow turnover for the current year ended on the mentioned date and the financial reports according to the international standards.

The conclusion basis

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

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

Management responsibility for the consolidated financial reporting

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

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

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

The auditor's liability

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

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

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

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

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

Ivane Zhuzhunashvili

on behalf of the "BDO" Ltd.
Tbilisi, Georgia
April 12, 2018

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JSC “PSP Insurance”

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for the year end December 31, 2017
in GEL

	Note	*2017*	*2016*
premium obtained		30,581,288	30,067,383
changes in the premium reserve		118,567	
net premium obtained		**30,462,721**	30,067,383
changes in the reserve obtained		(298,110)	442,945
premium reserve changes			
reinsurance share		106,800	
net premium obtained	4	**30,271,411**	**30,510,328**
commissions income	5	2,942	
net income		**30,274,353**	30,510,328
insurance losses and changes insurance obligations		(30,958,298)	(28,045,790)
reinsurer’s share and insurance obligations		150	
net insurance losses	6	**(30,958,148)**	**(28,045,790)**
acquisition expenditures		(21,247)	(8,379)
administrative and marketing expenditures	7	(4,132,324)	(3,925,516)
devaluation loss	8	(226,614)	(389,068)
other income-loss		(128,640)	(146,635)
profit from operational activities		**(5,192, 620)**	**(2,005,060)**
interest income	9	615,059	513,984
income (loss) from currency exchange		(93,081)	291,492
loss before tax		**(4,670,642)**	**(1,199,584)**
income tax expense	10	-	-
total loss		**(4,670,642)**	**(1, 199,584)**

Financial statement on behalf o top-management, confirmed for publishing on April 12, 2018 by the following persons:

Director General: ________________ S. Lebanidze

Chief accountant: ________________ N. Tkemaladze

Notes on pages 9-33 represent the integral part of the Financial Report.

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	Note	31.12.2017	31.12.2016*
assets			
fixed assets	11	211,430	259,717
non-material assets		17,093	14,886
overdue acquisition exp.		37,052	5,658
reinsurance assets	18	106,800	-
pre-paid taxes	12	53,109	112,021
resources		28,872	63,905
insurance and reinsurance req.	13	5,949,665	6,393,406
other assets	14	133,315	138,963
bank. institutions deposits	15	7,888,418	7,639,378
cash and cash equivalents	16	8,665,863	2,377,639
Total assets		**23,091,617**	**17,005,573**
own capital			
share capital	17	22,450,000	14,000,000
accumulated loss		(12,866,114)	(8,195,472)
total own capital		**9,583,886**	**5,804,528**
liabilities			
obligations from insurance contracts	18	11,447,622	9,562,654
other insurance liabilities	19	208,963	41,584
obligatory commissions income	20	26,700	
other liabilities	21	1,824,446	1,596,807
Total liabilities		**13,507,731**	**11,201,045**
Total own capital and liabilities		**23,091,617**	**17,005,573**

* The comparison information changes effect in the consolidated report on financial condition is given in the note #23

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	share capital	*accumulated loss*	*total*
residual recalculated for December 31, 2015	9,000,000	(6,995,888)	2,004,112
share capital increased	5,000,000	-	5,000,000
net annual loss	-	(1,199,584)	(1,199,584)
residual recalculated for December 31, 2016	14,000,000	(8,195,472)	5,804,528
net annual		(1,199,584)	(1,199,584)
share capital increased	8,450,000	-	8,450,000
net annual loss		(4,670, 642)	(4,670, 642)
residual calculated for December 31, 2017	22,450,000	(12,866,114)	9,583,886

Notes on pages 9-33 represent the integral part of the Financial Report.

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		2017	2016
cash flow from operational activities			
insurance premium received		29,549,444	27,575,718
incomes from regress and residual property		75,919	99,160
loss covered		(28,316,926)	(26,105,339)
salaries paid		(2,439,164)	(2,293,808)
cash paid to agents and brokers		(3,260)	(7,840)
other operation expenses		(824,204)	(973,009)
rent sum paid		(591,000)	(651,125)
			(269,097)
tax paid, except income tax and fines		-	
other revenues		142,838	203,956
net cash flows from operation activities received (used)		**(2,406,353)**	**(2,421,384)**
cash flows from investment activities			
acquisition of fixed assets and non-material assets		(14,131)	(55,004)
incomes from fixed assets and non-material assets		-	7,850
		618,498	512,958
		340,841	(2,489,735
other decreases in investment activities		(18,237)	
net cash flows received/used from investment activities		**(245,289)**	**(2,023,931)**
cash flows from financial activities			
incomes from share emission/capital growth		8,450,000	5,000,000
net cash flows from financial activities received/used		**8,450,000**	**5,000,000**
increase/decrease caused by currency exchange		(712)	246,832
net growth from cash flows and their equivalents		**6,288,224**	**801,517**
cash flows and their equivalents on January 1	16	2,377,639	**1,576,122**
cash flows and their equivalents in the period end:	16	8,665,863	2,377,639

Notes on pages 9-33 represent the integral part of the Financial Report.

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1. General information

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

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

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

2. Report on the significant accounting policy of the group

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

2.1. Submission base

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

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

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

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Consolidation base

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

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

2.1. Submission base (continued)

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

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

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

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

a) *After January one, 2017 the standards, interpretations and amendments in force*:

No new standards, interpretations or amendments, effective from January 1, 2017 had any important influence on the consolidated financial reporting of the group;

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

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

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

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

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

The five–stage model is as follows:

- contract identification with client;

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

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

Key requirements of FRAI 9:

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

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

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

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

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

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

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

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

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

2.3. Operations in foreign currency

a) The assessment and submission currency

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

b) Foreign currency converting

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

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

The last exchange rate for the residuals converting in foreign currency for December 31 of the years 2017 and 2016 was as follows:

Official exchange rate of the National Bank of Georgia

	US Dollars	**Euro**
rate for December 31, 2017	2.5922	3.1044
rate for December 31, 2016	2.6468	2.7940

2.4. The insurance and investment contracts - classification

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

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

2.5. Liability adequacy test

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

2.6. Requirements and obligations concerning the insurance and investment contracts

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

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

(i) regress and the residual property

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

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

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

2.7. Insurance loss liabilities

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

(i) declared, but not regulated loss reserve

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

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

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

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ii) occurred, but not declared reserve

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

2.8. Re-insurance contracts

Contracts concluded with other insurers (reinsurers) give the opportunity to the re-insurance company to compensate the losses from agreements and satisfy the classification criteria, are counted the re-insurance contracts.

The profit which the group has a right to get based on the contract, is classified as the reinsurance asset. Such assets consist of short and long-term requirements, and this is defined according to the proper re-insured contracts and the expected incomes and losses according to the time period.

Assessment of the sums to be refunded and reinsured, is made based on the contract sums, based on every concrete contract terms. The re-insurance obligation is the premium to be paid and is recognized when the expense payable is recorded.

The group makes annual reinvestment assets assessment. If there is the objective proof that the asset is devaluated, the group decreases its balance cost and recognizes the loss in the revenues statement. The proofs are found by the group using the same principle, which is used in the financial assets devaluation process. The devaluation losses are calculated using the same principle, which is used in the financial assets devaluation process.

2.9. Financial instruments

Financial assets

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

- loans and demands
- investments before the coverage date
- financial asset transacted with real cost, showing in the incomes or losses
- financial assets targeted for sale

In the consolidates financial reports of the group the loans and demands category is shown with the insurance and re-insurance demand and via the cash and cash equivalents. The cash and cash equivalents include cash and money in the current banking accounts.

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

Recognition of devaluation reserve is made when there is an objective proof (for example, significant difficulties concerning counteragents, late payments, etc.) that the group will not be able to collect all the debts payable. Such a sum is difference between the current and the balance

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costs. For the demanded and issued loans, represented by net costs, the reserves are shown in the separate article, and the proper loss – in the net income statement. In case, if it is impossible to receive all the loans issued, the entire cost of the asset should be decreased by the proper reserve.

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

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

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

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

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

Financial instruments (*continued*)

Financial liabilities

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

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

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

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

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

b) other financial liabilities

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

2.10. Termination of financial assets recognition

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

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2.11. Fixed assets

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

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

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

Useful service time for fixed assets:

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

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

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

2.12. Current and overdue income tax

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

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

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

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

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

2.13. Operational rent

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

2.14. Expenses

The expenses are being recognized in the net consolidated statement, if occurs future economic profit decrease, connected to the asset decrease or liability increase, defined as hopeful.

The expenses are recorded in the profit and loss statement if the future economic profit is not expected in future or it does not satisfy the criteria of recording it as an asset in the balance sheet.

3. Main accounting assessments and decisions

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

Main assessments and permissions

a) Final losses derived from the insurance contracts

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

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

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

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

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c) Income tax

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

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

d) Analyses of insurance requirements devaluation

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

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

4. Net premium obtained

Net premium obtained according to the insurance type for the calculated year end December 31, 2017 is presented as follows:

	total premium obtained	*share of reinsurer in premium obtained*	*net premium obtained*	*net changes in the premium reserve*	*net premium received*
medical(healthcare) insurance	24,756,905	-	24,756,905	(410,707)	24,346,198
life insurance	2,685,013	-	2,685,013	(18,554)	2,666,459
travel insurance	2,127,145	-	2,127,145	(13,037)	2,114,108
insurance from accidents	263,323	-	263,323	46,027	309,350
ground transport insurance	661,893	(118,567)	543,326	290,415	833,741
other	87,009	-	87,009	(85,454)	1,555
total	30,581,288	(118,567)	30,462,721	(191,310)	30,271,411

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

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

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5. Commission incomes

Commission incomes for the year end December 31, 2017 and 2016 is as follows:

	2017	2016
commissions income	29,642	-
overdue commissions income	-	-
overdue commissions income depreciation	(26,700)	-
total	2,942	

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

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

	2017	2016
regulated losses	(29,598,342)	(27,220,662)
changes in loss reserve	(1,586,858)	(1,259,380)
regresses	226,902	434,252
insurance loss and changes in insurance liability connected with loss	**(30,958,298)**	**(28,045,790)**

7. Administrative and marketing expenses

Common, administrative and marketing expenses for the year end December 31, 2017 and 2016 is as follows:

	2017	2016
salaries	(3,178,841)	(2,956,941)
rent	(270,880)	(271,528)
office inventory expenses	(141,921)	(77,799)
depreciation, amortization	(123,347)	(155,288)
consultation expenditures	(82,696)	(97,740)
banking expenditures	(52,962)	(40,832)
communication expenses	(46,480)	(37,279)
fuel expenditures	(39,149)	(21,650)
fuel	(25,247)	(30,530)
commercials	(17,000)	(24,947)
other	(153,801)	(210,982)
total	(4,132,324)	(3,925,516)

*The cost is shown for December 31, 2016 and 2017 the financial audit services is 6, 267 and 10 000 GEL accordingly.

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8. Devaluation loss

The insurance requirement devaluation loss for the year end December 31, 2016 and 2017 is as follows:

	policy owners demand	regresses demands	total
January 1	(387,559)	(684,873)	(1,072,432)
reserve changed	45,274	(271,888)	(226,614)
December 31	**(342,285)**	**(956,761)**	**(1,299,046)**

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

9. Interest incomes

Interest incomes for the year end December 31, 2016 and 2017 is as follows:

	2017	2016
TBC Bank	215,790	31,759
Liberty Bank	139,325	171,128
Procredit Bank	77,949	88,543
Bank of Georgia	71,729	43,816
Kartu Bank	62,324	144
VTB Bank	47,942	-
Bank Republic	-	178,594
Total	**615,059**	**513,984**

10. Income tax expenses

For the year end December 31, 2016 and 2017 the group had the accrued the tax losses its top management assessed the undefined use of these losses, that's why the management did not recognize the overdue assets for covering the income tax.

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11. Fixed assets

Fixed assets for December 31, 2016, and 2017 year end are as follows:

historic cost	office equipment	furniture	automobiles	total
December 31, 2015	290,451	192,211	16,713	499,375
incomes	38,076	58,575	18,711	115,362
expenditures	(720)	-	(8,450)	(9,170)
December 31, 2016	327,807	250,786	26,974	605,567
incomes	22,755	2,872	3,747	29,374
December 31, 2017	350,562	253,658	30,721	634,941
depreciation accrued				
December 31, 2015	(127,763)	(56,239)	(6,164)	(190,166)
depreciation during year	(173,723)	(76,133)	(8,968)	(258,824)
expenditures	(52,300)	(31,170)	(4,416)	(87,886)
December 31, 2016	719	-	141	860
depreciation during year	(56,221)	(19,076)	(2,364)	(77,661)
December 31, 2017	(281,525)	(126,379)	(15,607)	(423,511)
balance cost				
December 31, 2016	102,503	143,483	13,731	259,717
December 31, 2017	69,037	127,279	15,114	211,430

12. Pre-paid taxes

According to the changes made to the Georgian legislation, from January 1, 2016, the taxes are to be paid from the treasury account using the unified treasury code. As a result, for December 31, 2017 in the consolidated financial report the group has shown the taxable assets and liabilities based on netto principle – 53,109 GEL, as the taxation asset. As for December 31, 2016, the netto value of taxable assets and liabilities is 112,021 GEL.

13. Insurance and re-insurance requirements

Insurance requirements for December 31, 2016, and 2017 year end are as follows:

	31.12.2017	**31.12.2016**
policy owners requirements	6,186,909	6,587,961
regress requirements	1,028,342	874,281
reinsurance requirements	29,742	-
other	3,718	3,596
	7,248,711	**7,465,838**
devaluation reserve for insurance requirements	(342,285)	(387,559)
devaluation reserve for regresses	(956,761)	(684,873)
total	**5,949,665**	**6,393,406**

The insurance and reinsurance requirements real cost for December 31 of the years 2016, and 2017 is not defined by their balance costs.

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The group for the accounts payable creates the reserve for doubtful debts. The quality information is given in the note 22.

The information concerning coverage terms and the currencies in given in the item 22.

14. Other assets

Other assets for December 31, 2016, and 2017 year end are as follows:

	31.12.2017	31.12.2016
advanced payments for suppliers	119,291	91,453
other current assets	14,024	47,510
total	133,315	138,963

15. Deposits placed in banking institutions

Deposits placed in banking institutions for December 31, 2016 and 2017 year end are as follows:

	31.12.2017	31.12.2016
main sum	7,867,963	7,615,222
interest	20,455	24,156
total	7,888,418	7,639,378

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

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

Information on coverage dates and currency is given in note 22.

16. Cash and cash equivalents

Cash and cash equivalents for December 31, 2016, and 2017 year end are as follows:

	31.12.2017	31.12.2016
money in bank (GEL)	7,596,027	1,444,804
money in bank (foreign currency)	1,041,273	865,358
cash in national currency	28,563	67,477
total	8,665,863	2,377,639

Information on cash and cash equivalents is given in note 22.

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17. Share capital

The regulation body has issued order according to which the insurance companies should have obligatory sum of capital. Thus. the JSC "PSP Insurance" has increased its share capital by 8,450,000 GEL, and the company capital for yearend December 31, 2017 was 22,450,000 GEL.

18. Liabilities deriving from insurance contracts

Liabilities deriving from insurance contracts for December 31, 2016 and 2017 year end are as follows:

	31.12.2017	31.12.2016
Liabilities derived from insurance		
not obtained premium reserve	4,261,751	3,963,641
declared, but not regulated losses reserve	6,997,980	5,390,336
occurred but not declared losses reserve	187,891	208,677
total	**11,447,622**	**9,562,654**
reinsurance assets		
reinsurer's share in non occurred premium reserve	106,800	-
total	**106,800**	-
Liabilities decreased by the reinsurers share deriving from the insurance contracts		
not obtained premium reserve	4,154,951	3,963,641
declared, but not regulated losses reserve	6,997,980	5,390,336
occurred but not declared losses reserve	187,891	208,677
total	**11,340,822**	**9,562,654**

Not obtained premium reserve

not obtained premium reserve, Brutto	**2017**	**2016**
residual for January 1	3,963,641	4,406,586
obtained premium	34,295,127	31,470,500
obtained premium cancellation	(3,713,839)	(1,403,117)
not obtained premium	(30,271,411)	(30,510,328)
residual for December 31	**4,154,951**	**3,963,641**

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18. Liabilities deriving from insurance contracts (*continued*)

b) Losses reserve

	2017	2016
losses reserve, Brutto		
declared, but not registered loss reserve for January 1	5,390,336	4,183,350
occurred but not declared loss reserve for January 1	208,677	156,283
total loss reserve for January 1	**5,599,013**	**4,339,633**
previous year loss paid	(3,030,480)	(2,960,729)
previous year loss assessment changes	(1,418,892)	142,885
current year loss regulation expenses assessment	32,604,092	28,337,157
current year loss regulated	(26,567,862)	(24,259,933)
total loss reserve for January 1	**7,185,871**	**5,599,013**
declared, but not regulated loss reserve for January 1	6,997,980	5,390,336
occurred but not declared loss reserve for December 31	187,891	208,677

losses reserve, re-insurer's share		
total loss occurred for January 1	-	-
current year losses regulating expenses assessment	(150)	-
current year losses regulation	150	-
total occurred loss reserve for December 31	-	-

Losses reserve, netto		
declared but not-regulated loss reserve for December 31	5,390,336	4,183,350
occurred but not declared losses reserve for December 31	208,677	156,283
total occurred losses reserve for January 1	**5,599,013**	**4,339,633**
previous year losses payment	(3,030,480)	(2,960,729)
previous year losses assessment changes	(1,418,892)	142,885
current year losses expenses assessment	32,604,242	28,337,157
current year losses regulation	(26,568,012)	(24,259,933)
total occurred losses reserve for December 31	7,185,871	5,599,013
declared but not regulated losses reserve for December 31	6,997,980	5,390,336
occurred but non declared losses reserve for December 31	187,891	208,677

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18. Liabilities deriving from insurance contracts (*continued*)

Liabilities deriving from insurance contracts – fixed assets and permissions

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

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

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

19. Other insurance liabilities

Other liabilities for December 31, 2016, and 2017 year end are as follows:

	31.12.2017	31.12.2016
liabilities before reinsurer	118,352	-
agent and broker commissions	90,611	41,584
total	**208,963**	**41,584**

Other insurance liabilities of real cost for December 31, 2016 and 2017 is the same as the balance cost.

The information on coverage terms and currency is given in note 22.

20. Overdue commissions incomes

The overdue commissions income for December 31, 2016 and 2017 looks as follows:

	31.12.2017	31.12.2016
January 1	-	-
overdue incomes	29,642	-
depreciation	(2,942)	-
December 31	26,700	-

21. Other liabilities

Real cost of other liabilities for December 31, 2016, and 2017 year end:

	31.12.2017	31.12.2016
Other liabilities*	930,384	912,616
rent	827,148	648,978
other current liabilities	66,914	35,213
total	**1,824,446**	**1,596,807**

*Other liabilities represent liabilities deriving from medical preparations and other medical services price discounted by the parties.
Real cost of other liabilities for December 31, 2016, and 2017 year end does not differ from the balance cost.
The information on coverage terms and currency is given in note 22.

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22. Risk management

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

22.1. Capital management goals, policy and approaches

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

Goals of the capital management:

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

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

The local insurance supervisor sets the minimal capital sum, its payment terms for the insurance company. As for December 31, 2016 and the year 2017 the JSC "PSP Insurance" satisfied the minimal obligatory capital requirements – 2,200,000 GEL for life insurance, 2,200,000 GEL for non-life insurance, 2,200,000 GEL for re-insurance.

By the Order of the Georgian state insurance surveillance service head of September 16, 2016, the surveillance capital of the insurer should exceed the sum, calculated with paying ability margin of 50% from January 1, 2017 to July 1, 2017. The surveillance capital of the insurer should exceed the sum, calculated with paying ability margin of 75% from January 1, 2018. For December 31, 2017, the JSC "PSP Insurance" satisfied the mentioned requirements.

By the Order of the Georgian state insurance surveillance service head of September 16, 2016, the surveillance capital of the insurer should exceed the sum, calculated according to the order # 04 of April 20, 2015 of the state insurance surveillance service head "On establishing the minimal capital sums at all stages of the insurance activities implementation on the Georgian territory". For December 31, 2017, the JSC "PSP Insurance" satisfied the mentioned requirements.

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

22.2. Insurance risks management

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

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

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

The group loss coefficient is as follows:

	2017	**2016**
loss coefficient	102%	92%

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

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

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22.Risk management (*continued*)

22.2. Insurance risks management (*continued*)

Basis of suspense for future loss compensation assessment

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

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

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

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

22.3. Financial risks management

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

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

Main financial instruments

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

	31.12.2017	31.12.2016
financial assets		
deposits placed on bank deposits	7,888,418	7,639,378
cash and cash equivalent	8,665,863	2,377,639
insurance and re-insurance requirements	5,949,665	6,393,406
total	22,503,946	16,410,423

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22. Risk management *(continued)*

22.3. Financial risks management (continued)

Financial liabilities		
other liabilities	1,824,446	1,596,807
other insurance liabilities	208,963	41,584
insurance contracts deriving liabilities (apart from those from premium reserve)	7,185,871	5,599,013
total	9,219,280	7,237,404

Credit risk

Credit risk is the financial losses risk for the group, in case if the customer (insurer, re-insurer) or the second part connected with financial instruments will not fulfill the agreement duties. In general, the group's credit risk is connected with the Georgian market insurance products realization (payment overdue) and depends on every customer's paying ability.

According to the inner policy of risk assessment the group assesses the new insurances before agreement is concluded and the client is assessed by third party for the credibility (if the information is available), and in some cases, his banking history. Limits are assessed for each customer in consolidated way.

During the credit risk monitoring the group assesses credit history, types (consolidated or legal persons), geographic areas, industry type, etc. "High risk" customer group separately cooperates with the company based on the payments.

For debtor and other debts the group creates devaluation sum, which is the best assessment for future loss. The main part of the sum comes to the general reserve, which is created by the group analyses. Small part of the sum is presented as specific reserve, which is calculated as a result of significant analyses.

Analyses for due time of insurance requirements for December 31, 2016 and 2017 are as follows:

	2017	**2016**
individually assessed requirements for devaluation	90,261	119,300
grouped assessment of demands		
before time payments	4,447,083	4,036,179
0- 3 months	1,448,866	1,843,865
3- 6 months	62,077	294,415
6- 9 months	63,724	224,373
9-12 months	53,504	182,653
more than 1 year overdue	1,083,196	765,053
	7,248,711	7,465,838
percent for devaluation	(1,299,046)	(1,072,432)
total	5,949,665	6,393,406

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22.Risk management *(continued)*

22.3.Financial risks management (continued)

Liquidity risk

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

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

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

Market risk

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

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

Interest risk

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

Currency risk

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

Currency risk analyses for the period given:

	GEL	USD	EUR	Total
financial assets				
deposits in banking institutions	4,210,522	3,677,896	-	7,888,418
cash and cash equivalents	7,624,590	1,039,710	1,563	8,665,863
insurance demands	5,488,536	404,243	56,886	5,949,665
total assets	17,323,648	5,121,849	58,449	22,503,946
liabilities from	7,185,871	-	-	7,185,871
insurance contracts (apart from premium reserve)	1,704,004	120,44242	-	1,824,446
other liabilities	90,610	-118,353	-	208,963
total liabilities	8,980,485	238,795	-	9,219,280
open currency position	8,343,163	4,883,054	58,449	8,343,163

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	GEL	USD	EUR	Total
financial assets				
deposits in banking institutions	3,894,223	3,745,155	-	7,639,378
cash and cash equivalents	1,522,393	853,841	1,405	2,377,639
insurance demands	5,898,987	362,584	131,835	6,393,406
total assets	11,315,603	4,961,580	133,240	16,410,423
liabilities from insurance contracts (apart from premium reserve)	5,599,013	-	-	5,599,013
other liabilities	41,584	-	-	41,584
total liabilities	1,596,807	-	-	1,596,807
financial liabilities	7,237,404	-		7,237,404
open currency position	4,078,199	4,961,580	133,240	

Currency risk sensitivity

The table below shows the group's sensitivity towards US dollars and Euro exchange rate towards GEL, in the 20% increase/decrease terms. 20% is the rate, which is submitted to the group management when passing the information about currency risks. According to the management assessment, it is the rate, for possible exchange variations. The sensitivity analyses include the balance sums for foreign currency with 20% changes. The re-assessment effect of net revenue and capital assets for the year end December 31, 2016, and 2017 is as follows:

	US Dollar		Euro	
2017 20%	GEL/dollar 20%	GEL/dollar – 20%	GEL/Euro 20%	GEL/Euro – 20%
income/loss	976,611	(976,611)	11,690	(11,690)
2016 20%	GEL/dollar 20%	GEL/dollar – 20%	GEL/Euro 20%	GEL/Euro – 20%
income/loss	992,316	(992,316)	26,648	(26,648)

23. Comparison information changes

financial reporting item	*sum before changes*	*reclassification*	*sum after the changes*	*comments*
assets				
overdue acquisition expenses	-	5,658	5,658	overdue acquisition expenses from other assets article
other assets	201,517	(62,554)	138,963	overdue acquisition expenses and pre-paid taxes shown apart from the assets
pre-paid taxes	55,125	56,896	112,021	pre-paid taxes shown in the assets and showing in other ins. liabil.
liabilities				
other insurance liabilities	-	41,584	41,584	other insurance liabilities
				presentation of liabilities in other articles
other liabilities	1,638,391	(41,584)	1,596,807	

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24. Operations with connected parties

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

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

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

Operations with connected parties in the total revenue report for the years 2017 are as follows:

	other connected parties	*top management*	*article in financial report*
premium attracted	1,480,224	-	30,581,288
marketing and administrative expenses	(176,400)	-	(4,132,324)
top management's salaries	-	(171,647)	(4,132,324)

In 2016 in the entire report the operations with connected parties are as follows:

	connected parties	*top management*	*article in financial report*
premium attracted	1,289,397	-	30,067,383
marketing and administrative expenses	(178,755)	-	(3,925,516)
top management's salaries	-	(222,236)	(3,925,516)

For December 31, 2017 in the entire report the operations with connected parties are as follows:

	other connected parties	*article in financial report*
other liabilities	1,765,121	1,824,446
liabilities from insurance contracts	1,243,289	11,447,622
requirements from insurance and re-insurance	1,101,370	5,949,665

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For December 31, 2016 in the entire report the operations with connected parties are as follows:

	other connected parties	*article in financial report*
other liabilities	1,565,220	1,596,807
liabilities from insurance contracts	269,782	9,562,654
requirements from insurance and re-insurance	964,737	6,393,406

Connected parties represent the mutually controlled companies.

25.Conditional Obligations

Court disputes – for December 31, 2016 and 2017 the group has no significant court disputes. The top management has an opinion that there will be no material losses and accordingly, the group top management has not created the court disputes expenses budget.

Taxes – the Georgian taxation legislation can be interpreted in different ways. Moreover, the taxation interpretations can differ from the taxation bodies interpretation, the group operations can be appealed by taxation bodies and the group will be made to pay the additional sums payable, interests. The Company thinks that all the sums payable are paid and accordingly, no expenditures are shown in the consolidated financial report. The taxation bodies can check the company's operations implemented during 3 years.

Operational environment – positioning on the Georgian market creates the additional economic, political, social, justice and legislative risks, compared to the more developed markets. Laws and regulations, taxation and regulatory framework affect the development of the Georgian business. The Georgian economic course is influenced by the government's fiscal and monetary policy, together with the legislative, regulatory and political environment.

26. Post-balance events

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

Translator: /M. Benidze/

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სანოტარო მოქმედების რეგისტრაციის ნომერი	N180560714
სანოტარო მოქმედების რეგისტრაციის თარიღი	17.05.2018 წ
სანოტარო მოქმედების დასახელება	დოკუმენტის თარგმანზე დიპლომირებული მთარგმნელის ხელმოწერის დამოწმება
ნოტარიუსი	მერაბ ფარჯიკია
სანოტარო ბიუროს მისამართი	ქ. თბილისი ვ/ფშაველას 41
სანოტარო ბიუროს ტელეფონი	მობილური 591 709 989 599 19 64 09
სანოტარო მოქმედების ინდივიდუალური ნომერი	76077428161318

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

სანოტარო აქტი
საქართველო

ორიათასთვრამეტი წლის 17 მაისს, მე ნოტარიუს მერაბ ფარჯიკიას, ჩემს სანოტარო ბიუროში, რომელიც მდებარეობს ქ. თბილისში, ვაჟა-ფშაველას 41-ში, მომმართა მარინა ბენიძემ, რომელმაც წარმოადგინა წინამდებარე დოკუმენტის თარგმანი ქართული ენიდან ინგლისურ ენაზე. აღნიშნული დოკუმენტი თარგმნა მარინა ბენიძემ (დაბადებული 9/07/1971. ქ. თბილისი, პ/მ 13IL81008. პირადი № 01009009365 გაც. 22.05.2015წ. იუსტიციის სამინისტროს მიერ, ამჟამად მცხოვრები: თბილისი, ვ. ფშაველას 45, კორპ. 23, ბ. 8) მე, შევამოწმე მისი ქმედუნარიანობა და უფლებამოსილება. (ქ. თბილისი, საქართველოს ტექნიკური უნივერსიტეტის კავშირგაბულობის ფაკულტეტი დიპლომი დუ № 003641. 1996წ.) 2004წ. მან დაამთავრა კავკასიის ბიზნესის სკოლა ფინანსების განხრით. (ინგლისურ ენაზე), აქვს ბრიტანეთის საბჭოს მიერ გაცემული ინგლისური ენის უმაღლეს დონეზე ფლობის სერტიფიკატი. მე, მარინა ბენიძე გავაფრთხილე, რომ პასუხს აგებს თარგმნის სიზუსტეზე. გადახდილია სანოტარო მოქმედებათა შესრულებისათვის ნოტარიუსის საზღაურის შესახებ საქართველოს მთავრობის 2011 წლის 29 დეკემბრის №507-ე დადგენილება 31-ე მუხლის თანახმად 66 ლარი + 2 (ორი) ლარი სანოტარო მოქმედების ელექტრონულ სანოტარო რეესტრში რეგისტრაციის საფასური, თანახმად "სანოტარო მოქმედებათა შესრულებისთვის საზღაურის შესახებ" საქ. კანონის 39-ე მუხლისა + ასევე საქართველოს საგადასახადო კოდექსის 169-ე მუხლისა დღგ 18 %, 11.88 ლარი.

ნოტარიუსი მერაბ ფარჯიკია

Notary act
Georgia

Two thousand and eighteen May 17, I, the notary Merab Parjikia at my notary bureau located at Tbilisi, Vazha-Pshavela 41 was addressed by Marina Benidze who presented the translation of the following document from Georgian into English. The mentioned document was translated by Marina Benidze (born on 9/07/1971, 13IL81008, pn. № 01009009365 issued by Ministry of Justice, city of Tbilisi on 22/05/2015, residing at: Tbilisi, V. Pshavela 45, blg.23, ap. 8). I checked her capacity and competence. (Tbilisi city, the Tbilisi Technical University of Georgia, faculty of telecommunications in translation-.diploma DF # 003641, issued in 1996). In 2004 she graduated from Caucasus business school (in English), field of Finance, she has also the British Council Georgia's certificate, certifying her upper intermediate level of knowledge of English. I have notified Marina Benidze that she is responsible for an accurate translation. She confirmed that she knows corresponding language well and ensures the accuracy of the translation. Paid by tariff according to article 31 of the Georgian government Resolution #507 of December 29, 2011 concerning the notary services payment 66 GEL + 2 GEL fee for registration in electronic registry, according to article 39 of the Georgian Law "On the notary services payment"+ and according to article 169 of the Georgian Tax code VAT 18% 11,88 GEL.

Notary Merab Parjikia