# JSC INSURANCE COMPANY UNISON

## Financial Statements and

## Independent Auditor's Report

Year ended 31 December 2017

## Contents:

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# INDEPENDENT AUDITOR'S REPORT

To the shareholders and management of JSC Insurance Company Unison

## Opinion

We have audited the financial statements of **JSC INSURANCE COMPANY UNISON**, (hereinafter - the Company) which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 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 (IFRSs).

## 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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia.

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

## 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 IFRSs, 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 represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Ivane Zhuzhunashvili.

For and on behalf of BDO LLC

Tbilisi, Georgia

12 April 2018

JSC INSURANCE COMPANY UNISON

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(In GEL)

| | Note | 2017 | 2016 |
|---|---|---|---|
| Gross written premiums on insurance contracts | | 19,048,869 | 10,985,930 |
| Reinsurer's share of gross written premium on insurance contracts | | (2,124,687) | 113,401 |
| **Net written premium** | | **16,924,182** | **11,099,331** |
| Changes in provision for unearned premiums | | 6,083,084 | 12,593,667 |
| Changes in the re-insurer's portion in provision for unearned premiums | | (9,401,494) | (12,425,617) |
| **Net insurance revenue** | 4 | **13,605,772** | **11,267,381** |
| Commission income | 5 | 1,458,229 | 966,456 |
| **Total revenue** | | **15,064,001** | **12,233,837** |
| | | | |
| Insurance claims and loss adjustment expenses | | (7,112,770) | (7,990,457) |
| Insurance claims and loss adjustment expenses recovered from reinsurers | | (1,017,987) | 1,031,829 |
| **Net insurance claims** | 6 | **(8,130,757)** | **(6,958,628)** |
| Acquisition costs | 7 | (1,594,554) | (796,833) |
| Expenses for marketing and administration | 8 | (3,254,710) | (3,165,053) |
| Impairement charge | 9 | (721,822) | (664,630) |
| **Operating expenses** | | **(5,571,086)** | **(4,626,516)** |
| **Total claims and expenses** | | **(13,701,843)** | **(11,585,144)** |
| Other income/(expenses), net | 10 | 285,968 | 62,779 |
| **Results of operating activities** | | **1,648,126** | **711,472** |
| | | | |
| Interest income/(expenses), net | 11 | 279,717 | 113,437 |
| Foreign exchange gain/(loss), net | | (255,431) | 535,519 |
| **Profit before tax** | | **1,672,412** | **1,360,428** |
| Income tax expense | 12 | (309,913) | (201,940) |
| **Profit for the year** | | **1,362,499** | **1,158,488** |
| | | | |
| **Other Comprehensive income** | | | |
| Revaluation of property and equipment | | - | 544,303 |
| Effect of income tax | | - | (81,645) |
| **Total other comprehensive income** | | - | 462,658 |
| **Total comprehensive income for the year** | | **1,362,499** | **1,621,146** |

These financial statements were approved by management on 12 April 2018 and were signed on its behalf by:

General director ____________ V. Akhrakhadze

Financial Director ____________ G. Tsikaradze

Notes on pages 9-41 are the integral part of these financial statements.

JSC INSURANCE COMPANY UNISON

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(In GEL)

| | Note | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **Assets** | | | |
| Property and equipment | 13 | 3,226,460 | 3,193,580 |
| Intangible assets | 14 | 113,381 | 150,471 |
| Deferred acquisition costs | 15 | 1,320,002 | 669,065 |
| Reinsurance assets | 16 | 8,391,210 | 19,498,302 |
| Insurance and reinsurance receivables | 17 | 16,762,234 | 14,238,564 |
| Other current assets | 18 | 611,405 | 443,315 |
| Amount due from credit institutions | 19 | 6,154,358 | 5,490,521 |
| Cash and cash aquivalents | 20 | 3,356,752 | 3,389,404 |
| **Total assets** | | **39,935,802** | **47,073,222** |
| **Equity** | | | |
| Share Capital | | 2,077,000 | 2,077,000 |
| Revaluation reserve | | 1,234,155 | 1,263,894 |
| Retained earnings | | 3,267,508 | 1,875,270 |
| **Equity attributable to the owners of the company** | | **6,578,663** | **5,216,164** |
| **Liabilities** | | | |
| Insurance contract liabilities | 16 | 21,022,075 | 28,981,413 |
| Other insurance liabilities | 21 | 9,976,105 | 9,554,079 |
| Deffered commission income | 22 | 746,503 | 529,825 |
| Deferred income tax liablilitiy | 12 | 206,843 | 241,634 |
| Tax liabilities | | 121,095 | 245,067 |
| Borrowed funds | 23 | 850,579 | 1,515,391 |
| Other liabilities | 24 | 433,939 | 789,649 |
| **Total liabilities** | | **33,357,139** | **41,857,058** |
| **Total equity and liabilities** | | **39,935,802** | **47,073,222** |

The effect of changes of comparative information in the statement of financial position is disclosed in Note 26 to these financial statements.

JSC INSURANCE COMPANY UNISON

STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2017

(In GEL)

| | Share Capital | Retained Earning | Revaluation Reserve | Total |
|---|---|---|---|---|
| **31 December 2015** | 1,577,000 | 709,895 | 823,123 | 3,110,018 |
| **Comprehensive income for the year** | | | | |
| Profit for the year | - | 1,158,488 | - | 1,158,488 |
| Other comprehensive income | - | - | 462,658 | 462,658 |
| **Total** | - | 1,158,488 | 462,658 | 1,621,146 |
| **Other changes in capital** | | | | |
| Capital contribution | 500,000 | - | - | 500,000 |
| Dividend paid | - | (15,000) | - | (15,000) |
| Transfer from the revalution reserve to retained earnings | - | 21,887 | (21,887) | - |
| **Total** | 500,000 | 6,887 | (21,887) | 485,000 |
| **31 December 2016** | 2,077,000 | 1,875,270 | 1,263,894 | 5,216,164 |
| **Comprehensive income for the year** | | | | |
| Profit for the year | - | 1,362,499 | - | 1,362,499 |
| **Total** | - | 1,362,499 | - | 1,362,499 |
| **Other changes in capital** | | | | |
| Transfer from the revalution reserve to retained earnings | - | 29,739 | (29,739) | - |
| **Total** | - | 29,739 | (29,739) | - |
| **31 December 2017** | 2,077,000 | 3,267,508 | 1,234,155 | 6,578,663 |

Notes on pages 9-41 are the integral part of these financial statements.

JSC INSURANCE COMPANY UNISON

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(In GEL)

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 1,672,412 | 1,360,428 |
| Adjustments for: | | | |
| Depreciation and amortization | 8 | 186,805 | 156,811 |
| Changes in unearned premium reserves | 16 | (6,083,082) | (12,593,667) |
| Changes in unearned premium reserves, reinsurer's share | 16 | 9,401,492 | 12,425,617 |
| Changes in insurance claims reserves | 6 | (1,876,256) | 1,838,209 |
| Changes in insurance claims reserves, reinsurer's share | 6 | 1,705,600 | (284,826) |
| Changes in deferred acquisition costs | 15 | (650,937) | 43,846 |
| Gain from derecognition of financial liabilities | 10 | (308,147) | - |
| Changes in deferred commission income | 22 | 216,678 | 322,513 |
| Receivables impairment charge | 9 | 721,822 | 664,630 |
| Interest income /(expenses), net | 11 | (279,717) | (113,437) |
| Disposal of property and equipment | 13 | 41,348 | 19,617 |
| Foreign exchange gain/(loss), net | | 255,431 | (535,519) |
| **Cash flows from operating activities before changes in working capital** | | **5,003,449** | **3,304,222** |
| Increase/(Decrease) in insurance and reinsurance receivables | | (3,368,697) | 6,753,286 |
| Increase/(Decrease) in other insurance liabilities | | 966,448 | (7,199,422) |
| Decrease in tax liabilities | | (251,176) | 5,172 |
| Increase in other current assets | | (314,985) | (267,830) |
| Increase/(Decrease) in other liabilities | | (358,712) | 212,078 |
| **Cash generated from operations** | | **1,676,327** | **2,807,506** |
| Increase in amount due from credit institutions | | (560,411) | (2,561,742) |
| Interest received | | 156,155 | 212,551 |
| Interest paid | 23 | (80,351) | (122,155) |
| Income tax paid | | (217,500) | (18,477) |
| **Net cash flows from operating activities** | | **974,220** | **317,683** |
| | | | |
| **Investing activities** | | | |
| Purchase of fixed and intangible assets | | (279,039) | (215,798) |
| Disposal of fixed and intangible assets | | - | 6,697 |
| **Net cash used in investing activities** | | **(279,039)** | **(209,101)** |
| | | | |
| **Financing activities** | | | |
| Owners contribution | | - | 500,000 |
| Repayment of borrowed funds | 23 | (604,594) | (73,947) |
| Dividend paid | | - | (15,000) |
| **Net cash from/ (used in) financing activities** | | **(604,594)** | **411,053** |
| | | | |
| **Net Increase in cash and cash equivalents** | | **90,587** | **519,635** |
| **Cash and cash equivalents at the beginning of year** | 20 | **3,389,404** | **2,187,977** |
| Effect of changes in foreign exchange rate on cash and cash equivalents | | (123,239) | 681,792 |
| **Cash and cash equivalents at the end of year** | 20 | **3,356,752** | **3,389,404** |

Notes on pages 9-41 are the integral part of these financial statements.

## 1. General information

JSC Insurance Company Unison (the "Company") was established in the beginning of 2011 year. The Company possesses insurance license issued by the National Bank of Georgia for non-life insurance products. In 2013 the Company obtained license for life insurance products.

Insurance Company Unison, offers complete non-life and life (except investment policies) insurance package for corporate and individual clients. It includes health, property, motor transport, travel, liability insurance and so on.

Head office of the Company is located in Tbilisi. The Company's legal address is 19 Gamrekeli St., Tbilisi, Georgia.

As at 31 December 2017 the Company was 100%-owned by JSC Privat (old Absolute Holding). JSC Privat is 90% owned by the ultimate shareholder Vasil Akhrakhadze.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 2.1 *Basis of preparation*

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future. The management and shareholders have the intention to further develop the business of the Company in Georgia. The management believes that the going concern assumption is appropriate for the Company.

The financial statements have been prepared under the historical cost bases, except for the measurement at fair value of revalued property and equipment - Building.

The reporting period for the Company is the calendar year from January 1 to December 31.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the most appropriate application in applying the accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3.

### 2.2 *Adoption of new or revised standards and interpretations*

**a) New standards, interpretations and amendments effective from 1 January 2017**

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 that had a significant effect on the Company's financial statements. None of the amendments to Standards that are effective from that date had a significant effect on the Company's financial statements.

**b) New standards, interpretations and amendments not yet effective**

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. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

## 2. Summary of significant accounting policies (continued)

### IFRS 15 Revenue from Contracts with Customers.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. This standard is effective for annual periods beginning on or after 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The Company is currently assessing the possible impact of the new standard on its financial statements.

### IFRS 9 "Financial Instruments: Classification and Measurement"

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.

## 2. Summary of significant accounting policies (continued)

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company is currently assessing the possible impact of the new standard on its financial statements. This standard is effective for annual periods beginning on or after 1 January 2018.

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.

### 2.3 *Foreign currency translation*

#### *a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Financial statements are presented in Georgian lari, which is the Company's functional and presentation currency.

#### *b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are premeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Foreign exchange gains and losses that relate to monetary items are presented in the statement of comprehensive income within "Foreign exchange gains and losses".

At 31 December 2017 and 2016 the closing rate of exchange used for translating foreign currency balances was:

| | Official rate of the National Bank of Georgia | | |
|---|---|---|---|
| | USD | EUR | CHF |
| Exchange rate as at 31.12.2017 | 2.5922 | 3.1044 | 2.6584 |
| Exchange rate as at 31.12.2016 | 2.6468 | 2.7940 | 2.5982 |

### 2.4 *Insurance and investment contracts - classification*

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Contract Bonds issued by the Company are guaranteeing the performance of contractual obligations, contract Bonds can be:

- Advance Payment Bonds - Securing the proper use or repayment of the advance payments made to the Principal by the Beneficiary under or for the purposes of the contract, where such sum is advanced before the carrying out of works, the performance of services or the supply of provision of any goods pursuant to such contract. The bond usually decreases according to the progress of construction.
- Performance Bond - Protecting the Beneficiary against the financial loss if the Principal fails to fulfill the terms and conditions of the (underlying) written contract.
- Tender/Bid Bond: Used to pre-qualify contractors submitting proposals on potential contracts and serve to guarantee that the contractor, if awarded the construction project, will enter into a contract at the estimate submitted at the bid letting (as well be in the position to provide the required project bonds).

## 2. Summary of significant accounting policies (continued)

The Beneficiary is provided protection up to the amount of the bid, which is a percentage of the total contract, if the bidder fails to honor its commitment.

- Customs Bonds (Same as we call Financial Risks insurance policies) - Guaranteeing the proper declaration and timely payment of customs and excise duty, import duty or re-exportation to the Customs & Excise Authorities at due date (temporary importation, transit procedures etc.).

Contract bonds are accounted as insurance contracts.

### 2.5 *Deferred policy acquisition costs (DAC)*

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts as follows:

- For property and casualty DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts with fixed and guaranteed terms, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term insurance contracts without fixed terms DAC is amortised over the expected total life of the contract.

The pattern of expected profit margins is based on historical and anticipated future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is charged to revenue.

### 2.6 *Value of business acquired*

On acquisition of a portfolio of contracts, directly from another insurer the Company recognises an intangible asset representing the value of business acquired (VOBA). VOBA represents the present value of future profits embedded in acquired insurance contracts and investment contracts with DPF. The Company amortises VOBA over the effective life of the acquired contracts on the same basis as DAC (see above).

### 2.7 *Liability adequacy test*

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC and VOBA assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC or VOBA and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

### 2.8 *Reinsurance contracts held*

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

## 2. Summary of significant accounting policies (continued)

The Company assesses its reinsurance assets for impairment on a annual basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets.

### 2.9 *Receivables and payables related to insurance contracts and investment contracts*

These include amounts to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets.

*(i) Salvage and subrogation reimbursements*

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

### 2.10 *Reserves for loss and loss adjustment expenses*

Reserves are established for the payment of losses and loss adjustment expenses (LAE) on claims which have occurred but are not yet settled. Reserves for loss and loss adjustment expenses fall into two categories: case reserves for reported but not settled insurance claims (RBNS) and reserves for incurred but not reported losses (IBNR).

*(i) reported but not settled insurance claims (RBNS)*

The Company forms reserve for reported but not settled involving known claims of insurers (re-insurers) at the reporting date confirmed by the relevant statements.

The amount of reserve for reported but not settled insurance claims at the reporting date are the amount of reserved unpaid insurance money under known claims of insurers, with respect to which the decision on complete or partial failure in premiums payment was not made.

The amount of reserve for reported but not settled insurance claims is reported in the Company's balance sheet as liabilities.

*(ii) reserves for incurred but not reported losses (IBNR)*

IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported. The reserve for incurred but not reported insurance claims is formed by the Company at the end of reporting date.

The amount of reserve for incurred but not reported insurance claims is reflected in the Company's balance as liabilities.

## 2. Summary of significant accounting policies (continued)

### 2.11 *Financial instruments*

**Financial assets**

The Company classifies all its financial assets as loans and receivables and held-to-maturity investments. The Company determines the classification of its financial assets upon initial recognition.

*(a) Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For the receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in the statement of comprehensive income.

When a receivable is uncollectible, it is written off against the allowance account for financial assets and the amount of the loss is recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited in profit or loss.

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

The Company's loans and receivables comprise insurance and reinsurance receivables, subrogation receivables and cash and cash equivalents. Cash and cash equivalents includes cash on current accounts and cash on hand.

*(b) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

(a) Those that the entity upon initial recognition designates as at fair value through profit or loss

(b) Those that the entity designates as available for sale; and

(c) Those that meet the definition of loans and receivables.

The Company's held-to-maturity investments comprise amounts due to credit institutions.

In current period the Company does not have available-for-sale financial assets and financial assets at fair value through profit or loss.

**2. Summary of significant accounting policies (continued)**

**Financial liabilities**

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

*(a) Fair value through profit or loss*

A financial liability at fair value through profit or loss is a financial liability that meets either of the following conditions:

(a) It is classified as held for trading

(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss.

In current period the Company does not have financial liabilities at fair value through profit or loss.

(b) *Other financial liabilities*

Other financial liabilities include other insurance liabilities, borrowings and other payables which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

**2.12 *Fire value measurment***

The Company measures, such as group of buildings, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs, that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**2.13 *Property and equipment***

Property and equipment, except for buildings, are stated at cost, less accumulated depreciation and provision for impairment, where required.

Following initial recognition, buildings are carried at revalued amount, being the fair value at the date of revaluation, less any accumulated depreciation. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

## 2. Summary of significant accounting policies (continued)

Any revaluation surplus is credited to the revaluation reserve for property and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit or loss, in which case the increase is recognized in the statement of profit or loss to the extent of the decrease previously charged.

Depreciation on revalued buildings is charged to the statement of profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. Depreciation is calculated on a straight-line basis at the following useful lives:

| Group | Useful life (year) |
|---|---|
| Buildings | 50 |
| Furniture and fixtures | 5 |
| Office equipment | 5 |
| Computers | 5 |
| Other | 4-5 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains - net in the statement of comprehensive income.

### 2.14 *Intangible Assets*

Computer software development costs are recognized at cost.

Amortization is calculated using the straight-line method to allocate their cost or devalued amounts to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Computer software development costs recognised as assets are amortised over their useful lives. Amortization is calculated on a straight-line basis during 7 years.

### 2.15 *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss.

### 2. Summary of significant accounting policies (continued)

Deferred income tax is determined using tax rate (and laws) that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity where there is an intention to settle the balances on a net basis.

#### 2.16 *Taxes other than income tax*

Taxes other than income tax are recognised when obligating events have occurred. The obligating events are an event that raises a liability to pay a tax. Taxes are calculated in accordance with Georgian legislation.

#### 2.17 *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

#### 2.18 *Recognition of expenses*

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed. Expenses incurred during the services rendered are recognized in proportionate calculation with recognized income.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

### 3. Critical accounting estimates and judgements

Company makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***Estimates and assumptions***

*a) The ultimate liability arising from claims made under insurance contracts*

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

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

### 3. Critical accounting estimates and judgements (continued)

*b) Deferred policy acquisition costs (DAC) and value of business acquired (VOBA)*

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. For long-term insurance contracts without fixed terms and investment contracts with DAC and VOBA on these contracts are amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts in accordance with the accounting policy stated in Note 2.5 In current period company doesn't have any long term insurance contracts.

*c) Useful lives of property and equipment*

Property and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods.

*d) Income tax*

Company is subject to income tax and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities.

*e) Impairment of insurance and reinsurance receivables*

The Company assesses insurance and reinsurance receivables for impairment. The primary factors that the company considers whether a financial asset is impaired is its overdue status and deterioration of debtor's credit rating.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created based on an individual evaluation of assets subject to risks regarding financial assets being material individually and based on joint evaluation of financial assets not being material individually.

*f) Fair value of buildings*

Fair value of a group of buildings is determined by an independent valuator with relevant qualifications.

The above assessments are subject to subsequent changes based on new information and new market data. Last date of evaluation is December 31, 2016. The fair value is determined using comparative method.

## 4. Net earned premium

Net earned premium by insurance type for the year ended 31 December 2017 can be presented as follows:

| | Gross written premium | Reinsurer's share in gross written premium | Net written premium | Net changes in unearned premium | Net insurance revenue |
|---|---|---|---|---|---|
| Personal Accident | 353,661 | - | 353,661 | (81,793) | 271,868 |
| Travel | 385,964 | (9,080) | 376,884 | (59,611) | 317,273 |
| Medical (Health) | 9,896,624 | - | 9,896,624 | (3,645,325) | 6,251,299 |
| Road Transport Means | 2,038,913 | - | 2,038,913 | 179,949 | 2,218,862 |
| Motor Third-Party Liability | 324,895 | (36,842) | 288,053 | 56,075 | 344,128 |
| Aviation Transport Means (Hull) | 367,677 | (231,862) | 135,815 | (38,746) | 97,069 |
| Aviation Third-Party Liability | 50,495 | (32,696) | 17,799 | (5,089) | 12,710 |
| Marine Transport Means (Hull) | 131,000 | (58,880) | 72,120 | (18,791) | 53,329 |
| Marine Third-Party Liability | 16,739 | (8,369) | 8,370 | (1,123) | 7,247 |
| Cargo | 349,947 | (148,005) | 201,942 | 19,775 | 221,717 |
| Property | 2,928,501 | (1,110,237) | 1,818,264 | 301,960 | 2,120,224 |
| Financial Risks | 159,386 | (10,928) | 148,458 | (37,603) | 110,855 |
| Suretyships | 497,733 | (335,629) | 162,104 | 29,021 | 191,125 |
| Third Party Liability | 847,496 | (142,159) | 705,337 | 218,793 | 924,130 |
| Life insurance | 699,838 | - | 699,838 | (235,902) | 463,936 |
| **Total** | **19,048,869** | **(2,124,687)** | **16,924,182** | **(3,318,410)** | **13,605,772** |

Net earned premium by insurance type for the year ended 31 December 2016 can be presented as follows:

| | Gross written premium | Reinsurer's share in gross written premium | Net written premium | Net changes in unearned premium | Net insurance revenue |
|---|---|---|---|---|---|
| Property | 1,448,174 | 961,261 | 2,409,435 | 354,065 | 2,763,500 |
| Marine Transport Means (Hull) | 98,244 | (24,318) | 73,926 | 31,472 | 105,398 |
| Marine Third-Party Liability | 32,013 | (4,663) | 27,350 | 1,961 | 29,311 |
| Third-Party Liability | 1,387,737 | (141,012) | 1,246,725 | (728,344) | 518,381 |
| Aviation Transport Means (Hull) | 188,915 | (130,424) | 58,491 | (1,400) | 57,091 |
| Aviation Third-Party Liability | 30,580 | (30,580) | - | 1,734 | 1,734 |
| Road Transport Means | 1,822,156 | - | 1,822,156 | 669,655 | 2,491,811 |
| Medical (Health) | 4,061,941 | - | 4,061,941 | (145,016) | 3,916,925 |
| Suretyships | 552,447 | (369,258) | 183,189 | 46,155 | 229,344 |
| Cargo | 366,302 | (77,343) | 288,959 | (54,752) | 234,207 |
| Financial Risks | 76,859 | (30,457) | 46,402 | 19,847 | 66,249 |
| Motor Third-Party Liability | 344,574 | (34,366) | 310,208 | 11,512 | 321,720 |
| Personal Accident | 219,173 | - | 219,173 | 11,079 | 230,252 |
| Travel | 70,262 | (5,439) | 64,823 | (6,771) | 58,052 |
| Life insurance | 286,553 | - | 286,553 | (43,147) | 243,406 |
| **Total** | **10,985,930** | **113,401** | **11,099,331** | **168,050** | **11,267,381** |

## 5. Commission income

Commission income for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Commission Income | 1,674,907 | 1,288,969 |
| Commission Income deffered (note 22) | (746,503) | (529,825) |
| Amortization (note 22) | 529,825 | 207,312 |
| **Total** | **1,458,229** | **966,456** |

Commission income according to the line of businesses (LOBs) can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Aviation Third Party Liability | 747,815 | 475,789 |
| Property | 330,083 | 183,869 |
| Motor Third Party Liability | 139,955 | 6,441 |
| Suretyships | 94,715 | 118,751 |
| Financial Risks | 45,485 | 13,557 |
| Aviation Transport Means (Hull) | 35,431 | 7,813 |
| Cargo | 30,230 | 31,937 |
| Third Party Liability | 21,312 | 117,383 |
| Marine Transport Means (Hull) | 11,028 | 8,928 |
| Travel | 2,175 | - |
| Marine Third Party Liability | - | 1,988 |
| **Total** | 747,815 | 475,789 |

## 6. Net insurance claims

Net insurance claims for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Insurance claims paid | (9,604,614) | (7,003,810) |
| Gross Change in outstanding claims | 1,876,256 | (1,838,209) |
| Subrogation and recovery | 615,589 | 851,564 |
| **Insurance claims and loss adjustment expenses** | (7,112,769) | (7,990,455) |
| | | |
| Reinsurer's share of general insurance claims paid | 687,612 | 747,001 |
| Reinsurer's share of change in outstanding claims | (1,705,600) | 284,826 |
| **Insurance claims and loss adjustment expenses recovered from reinsurers** | (1,017,988) | 1,031,827 |
| **Net insurance claims incurred** | (8,130,757) | (6,958,628) |

## 7. Acquisition costs

Acquisition costs for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Acuisition Costs | (2,270,518) | (866,600) |
| Cancellation of polices | 25,027 | 113,613 |
| Acquisition costs deffered (note 15) | 1,320,002 | 669,065 |
| Amortization (note 15) | (669,065) | (712,911) |
| **Total** | **(1,594,554)** | **(796,833)** |

Acquisition costs according to the line of businesses (LOBs) can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Property | (558,469) | (369,505) |
| Medical (Health) | (259,249) | (126,101) |
| Road Transport Means | (161,004) | (240,664) |
| Travel | (155,411) | (26,056) |
| Third Party Liability | (112,359) | (34,433) |
| Cargo | (101,900) | (116,278) |
| Life insurance | (85,705) | (19,137) |
| Financial Risks | (42,366) | (8,280) |
| Motor Third Party Liability | (34,926) | (29,569) |
| Suretyships | (33,825) | (21,638) |
| Personal Accident | (16,464) | (9,942) |
| Aviation Third Party Liability | (13,513) | (2,050) |
| Aviation Transport Means (Hull) | (12,857) | (1,813) |
| Marine Transport Means (Hull) | (5,928) | (13,156) |
| Marine Third Party Liability | (578) | (5,220) |
| Cancellation of commissions | - | 227,009 |
| **Total** | **(1,594,554)** | **(796,833)** |

## 8. Expenses for marketing and administration

Expenses for marketing and administration for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Salary Expenses | (2,012,833) | (1,922,977) |
| Depreciation and amortization | (186,805) | (156,811) |
| Rent | (173,859) | (106,908) |
| Communication and utility expenses | (102,823) | (118,374) |
| Consulting and other professional services | (114,964) | (126,304) |
| Office supply | (90,225) | (61,637) |
| Office maintenance | (74,738) | (27,293) |
| Business trip and representative expenses | (69,763) | (66,122) |
| Advertising and marketing expenses | (69,291) | (339,437) |
| Tax expenses | (47,793) | (32,231) |
| Bank fee | (25,948) | (49,310) |
| Other operating expenses | (285,668) | (157,649) |
| **Total** | **(3,254,710)** | **(3,165,053)** |

## 8. Expenses for marketing and administration (continued)

* For the years ended 31 December 2017 and 2016 audit fee and other professional services incurred toward an accounting company represent GEL38,381 and GEL37,912, respectively.

## 9. Impairment charge

Insurance and other receivable Impairment charge for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Changes in allowances for Insurance receivables | (545,708) | (267,572) |
| Changes in allowances for receivables from salvage and subrogation reimbursements | (165,443) | (391,826) |
| Changes in allowances for other receivables | - | (5,232) |
| Bad debt expense | (10,671) | - |
| **Total** | **(721,822)** | **(664,630)** |

**Reconciliation of impairment provision can be presented as follows:**

| | | |
|---|---|---|
| **01 January (Note 17 and 18)** | **(1,902,714)** | **(1,238,084)** |
| Insurance and reinsurance receivables' general allowance charge | (577,957) | (14,929) |
| Insurance and reinsurance receivables' specific allowance charge | 32,249 | (252,643) |
| Allowance charge for receivables from salvage and subrogation reimbursements | (165,443) | (391,826) |
| Allowances change for other receivables | - | (5,232) |
| Recognised as bad debt | 210,848 | - |
| **31 December** | **(2,403,017)** | **(1,902,714)** |

## 10. Other income/(expense), net

Other income/(expense), net for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Other income | | |
| Gain from derecognition of financial liabilities | 308,147 | - |
| Sale of salvage | 15,402 | - |
| No claim bonuses | 79,683 | - |
| Other | 84,918 | 62,779 |
| **Total other income** | **488,150** | **62,779** |
| Other expense | | |
| No claim bonuses | (118,311) | - |
| Other | (83,871) | - |
| **Total other expense** | **(202,182)** | **-** |
| **Other income/(expense), net** | **285,968** | **62,779** |

## 11. Interest income/(expense), net

Interest income/(expense), net for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Interest income | | |
| Interest income from deposits | 324,764 | 197,416 |
| Interest income from issued loans | 20,840 | - |
| Interest income from current accounts | 11,242 | 38,594 |
| **Total interest income** | **356,846** | **236,010** |
| **Interest expense** | | |
| Borrowed funds from financial institutions | (77,129) | (122,573) |
| **Total interest expense** | **(77,129)** | **(122,573)** |
| **Interest income/(expense), net** | **279,717** | **113,437** |

## 12. Taxation

Income tax expense for the years ended 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| Current tax | (344,704) | (217,507) |
| Effect of temporary differences | 34,791 | 15,567 |
| **Total** | **(309,913)** | **(201,940)** |

Reconciliation of income tax expense for the years ended 31 December 2017 and 2016 can be presented as follows:

| | | |
|---|---|---|
| **Profit before tax** | **1,672,412** | **1,360,428** |
| Applicable tax rate | 15% | 15% |
| Theoretical income tax | (250,862) | (204,064) |
| Effect of permanent difference previuosly recognised as temporary | (31,627) | - |
| Effect of permanent differences | (27,424) | 2,124 |
| **Profit tax expense** | **(309,913)** | **(201,940)** |

Reconciliation of deferred income tax liability as at 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| **At 1 January** | **(241,634)** | **(175,556)** |
| **Recognised in profit and loss** | | |
| Income tax expense | 34,791 | 15,567 |
| **Recognised in other comprehensive income** | | |
| Income tax expense on revaluation | - | (81,645) |
| **At 31 December** | **(206,843)** | **(241,634)** |

## 12. Taxation (continued)

The tax effects of the movements in temporary differences recorded at the rate of 15% for the year ended 31 December 2017 are as follows:

| | Asset | Liability | Net | (Charged)/ credited to profit or loss |
|---|---|---|---|---|
| | 31.12.2017 | 31.12.2017 | 31.12.2017 | 31.12.2017 |
| Property, equipment and intangible assets | - | (488,504) | (488,504) | (13,995) |
| Insurance and reinsurance receivables | 209,280 | - | 209,280 | 50,229 |
| Other current assets | 151,172 | - | 151,172 | 24,816 |
| Insurance contracts liabilities | - | (78,791) | (78,791) | (26,259) |
| **Tax asset/(liability)** | **360,452** | **(567,295)** | **(206,843)** | **34,791** |
| Set off tax | (360,452) | 360,452 | - | - |
| **Net tax liability** | **-** | **(206,843)** | **(206,843)** | **34,791** |

The tax effects of the movements in temporary differences recorded at the rate of 15% for the year ended 31 December 2016 are as follows:

| | Asset | Liability | Net | (Charged)/ credited to profit or loss | (Charged)/ credited to equity |
|---|---|---|---|---|---|
| | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 | 31.12.2016 |
| Property, equipment and intangible assets | - | (474,509) | (474,509) | **5,708** | **(81,645)** |
| Insurance and reinsurance receivables | 159,051 | - | 159,051 | **40,136** | - |
| Other current assets | 126,356 | - | 126,356 | **59,559** | - |
| Insurance contracts liabilities | - | (52,532) | (52,532) | **(21,032)** | - |
| Tax loss carry-forwards | - | - | - | **(68,804)** | - |
| **Tax asset/(liability)** | **285,407** | **(527,041)** | **(241,634)** | **15,567** | **(81,645)** |
| Set off tax | (285,407) | 285,407 | - | - | - |
| **Net tax liability** | **-** | **(241,634)** | **(241,634)** | **15,567** | **(81,645)** |

## 13. Property and equipment

Property and equipment as at 31 December 2017 and 2016 can be presented as follows:

| | Buildings | Furniture fixtures | Office equipment | Computer equipment | Other | Total |
|---|---|---|---|---|---|---|
| Historical cost 31.12.2015 | 2,490,406 | 83,908 | 58,228 | 168,696 | 86,272 | 2,887,510 |
| Additions | - | 17,019 | 14,403 | 39,613 | 94,864 | 165,899 |
| Revaluation Surplus | 434,594 | - | - | - | - | 434,594 |
| Disposals | - | - | - | - | (31,564) | (31,564) |
| Historical cost 31.12.2016 | 2,925,000 | 100,927 | 72,631 | 208,309 | 149,572 | 3,456,439 |
| Additions | 54,247 | 27,538 | 25,164 | 69,036 | 58,344 | 234,329 |
| Disposals | (41,472) | (4,236) | - | - | (12,848) | (58,556) |
| Historical cost 31.12.2017 | 2,937,775 | 124,229 | 97,795 | 277,345 | 195,068 | 3,632,212 |
| | | | | | | |
| Accumulated depreciation | | | | | | |
| Accumulated depreciation 31.12.2015 | (54,838) | (49,058) | (26,976) | (88,457) | (23,049) | (242,378) |
| Depreciation 2016 | (54,871) | (13,736) | (12,537) | (30,001) | (24,295) | (135,440) |
| Elimination of depreciation | 109,709 | - | - | - | - | 109,709 |
| Accumulated depreciation of disposal | - | - | - | - | 5,250 | 5,250 |
| Accumulated depreciation 31.12.2016 | - | (62,794) | (39,513) | (118,458) | (42,094) | (262,859) |
| Depreciation 2017 | (74,753) | (15,737) | (15,496) | (35,516) | (18,599) | (160,101) |
| Accumulated depreciation of disposal | 11,431 | 1,021 | - | - | 4,756 | 17,208 |
| Accumulated depreciation 31.12.2017 | (63,322) | (77,510) | (55,009) | (153,974) | (55,937) | (405,752) |
| | | | | | | |
| Net book value | | | | | | |
| Net book value 31.12.2016 | 2,925,000 | 38,133 | 33,118 | 89,851 | 107,478 | 3,193,580 |
| Net book value 31.12.2017 | 2,874,453 | 46,719 | 42,786 | 123,371 | 139,131 | 3,226,460 |

Company's buildings are revalued on an annual basis. The latest revaluation date was 31 December 2016. The asset was revalued by Independent Appraiser. Fair value of the building was determined using level 3 measurements of fair value measurement hierarchy.

Book values of the building, without considering the revaluation model, at 31 December 2017 and 2016 are stated as GEL1,338,671 and GEL1,365,991, respectively.

## 14. Intangible assets

Intangible assets as at 31 December 2017 and 2016 can be presented as follows:

| | Software | Other intagible assets | Total |
|---|---|---|---|
| **Balance at 31 December 2015** | **123,481** | **48,977** | **172,458** |
| Additions | 46,233 | - | 46,233 |
| **Balance at 31 December 2016** | **169,714** | **48,977** | **218,691** |
| Additions | 44,710 | - | 44,710 |
| Disposals | (55,096) | - | (55,096) |
| **Balance at 31 December 2017** | **159,328** | **48,977** | **208,305** |
| | | | |
| **Accumulated amortisation** | | | - |
| **Balance at 31 December 2015** | **(20,924)** | **(25,925)** | **(46,849)** |
| Amortisation | (17,650) | (3,721) | (21,371) |
| **Balance at 31 December 2016** | **(38,574)** | **(29,646)** | **(68,220)** |
| Amortisation | (23,629) | (3,075) | **(26,704)** |
| **Balance at 31 December 2017** | **(62,203)** | **(32,721)** | **(94,924)** |
| | | | |
| **Net book value** | | | |
| **Balance at 31 December 2016** | **131,140** | **19,331** | **150,471** |
| **Balance at 31 December 2017** | **97,125** | **16,256** | **113,381** |

## 15. Deffered acquisition costs

Deffered acquisition costs as at 31 December 2017 and 2016 can be presented as follows:

| | 2017 | 2016 |
|---|---|---|
| **At 1 January** | 669,065 | 712,911 |
| Expenses deferred | 2,245,491 | 752,987 |
| Amortization (note 7) | (1,594,554) | (796,833) |
| **At 31 December** | **1,320,002** | **669,065** |

## 16. Insurance contract liabilities and reinsurance assets

Insurance contract liabilities and reinsurance assets as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Insurance contract liabilities** | | |
| Unearned premium provision | 17,867,429 | 23,950,511 |
| Provisions for claims reported by policyholders | 3,008,514 | 4,705,521 |
| Provisions for claims incurred but not reported | 146,132 | 325,381 |
| **Total** | **21,022,075** | **28,981,413** |
| **Reinsurance assets** | | |
| Reinsurers' share in unearned premium provision | 7,795,180 | 17,196,672 |
| Reinsurers' share in provisions for claims reported by policyholders | 531,831 | 2,106,784 |
| Reinsurers' share in provisions for claims incurred but not reported | 64,199 | 194,846 |
| **Total** | **8,391,210** | **19,498,302** |
| **Insurance contract liabilities net of reinsurance** | | |
| Unearned premium provision | 10,072,249 | 6,753,839 |
| Provisions for claims reported by policyholders | 2,476,683 | 2,598,737 |
| Provisions for claims incurred but not reported | 81,933 | 130,535 |
| **Total** | **12,630,865** | **9,483,111** |

Analysis of movements in insurance contract provisions can be presented as follows:

***a) Analyses of movement in provision for unearned premium:***

| **Provision for unearned premium, gross** | 2017 | 2016 |
|---|---|---|
| **Balance at 1 January** | **23,950,511** | **36,544,178** |
| Gross premium Written | 19,498,426 | 15,361,015 |
| Cancelled premiums | (449,557) | (4,375,085) |
| Gross earned premium | (25,131,951) | (23,579,597) |
| **Balance at 31 December** | **17,867,429** | **23,950,511** |

| **provision for unearned premium - reinsurer's share:** | | |
|---|---|---|
| **Balance at 1 January** | **17,196,672** | **29,622,289** |
| Reinsurer's share of gross written premium | 2,183,853 | 2,890,010 |
| Cancelled premiums | (59,166) | (3,003,411) |
| Gross reinsurer's earned premium | (11,526,179) | (12,312,216) |
| **Balance at 31 December** | **7,795,180** | **17,196,672** |

| **provision for unearned premium - (net of reinsurance)** | | |
|---|---|---|
| **Balance at 1 January** | **6,753,839** | **6,921,889** |
| Reinsurer's share of gross written premium | 17,314,573 | 12,471,005 |
| Cancelled premiums | (390,391) | (1,371,674) |
| Gross reinsurer's earned premium | (13,605,772) | (11,267,381) |
| **Balance at 31 December** | **10,072,249** | **6,753,839** |

16. Insurance contract liabilities and reinsurance assets (continued)

*b) Provision for claims*

| Claims provision, gross | 2017 | 2016 |
|---|---|---|
| Balance of incurred but not reported at 1 January | 325,381 | 479,834 |
| Balance of notified claims provision at 1 January | 4,705,521 | 2,712,859 |
| **Total balance of claims provisions at 1 January** | **5,030,902** | **3,192,693** |
| Payements in respect of prior year claims | (1,561,915) | (891,976) |
| Change in estimates in respect of prior year claims | (2,738,770) | 154,024 |
| Expected cost of currrent year claims | 10,467,128 | 8,687,995 |
| Payements in respect of current year claims | (8,042,699) | (6,111,834) |
| **Provisions for claims reported by policyholders** | **3,154,646** | **5,030,902** |
| Provisions for claims incurred but not reported | 146,132 | 325,381 |
| Provisions for claims notified by policyholders | 3,008,514 | 4,705,521 |

| Provision for claims - reinsurer's share: | 2017 | 2016 |
|---|---|---|
| Balance of incurred but not reported at 1 January | 194,846 | 190,599 |
| Balance of notified claims provision at 1 January | 2,106,784 | 1,826,205 |
| **Total balance of claims provisions at 1 January** | **2,301,630** | **2,016,804** |
| Payments in respect of prior year claims | (322,016) | (210,875) |
| Change in estimates in respect of prior year claims | (1,487,860) | (154,859) |
| Expected cost of current year claims | 469,872 | 1,186,686 |
| Payments in respect of current year claims | (365,596) | (536,126) |
| **Total claims provisions at 31 December** | **596,030** | **2,301,630** |
| Balance of incurred but not reported at 31 December | 64,199 | 194,846 |
| Balance of notified claims provision at 31 December | 531,831 | 2,106,784 |

| Provision for claims - (net of reinsurance) | 2017 | 2016 |
|---|---|---|
| Balance of incurred but not reported at 1 January | 130,535 | 289,235 |
| Balance of notified claims provision at 1 January | 2,598,737 | 886,654 |
| **Total balance of claims provisions at 1 January** | **2,729,272** | **1,175,889** |
| Payments in respect of prior year claims | (1,239,899) | (681,101) |
| Change in estimates in respect of prior year claims | (1,250,910) | 308,883 |
| Expected cost of current year claims | 9,997,256 | 7,501,309 |
| Payments in respect of current year claims | (7,677,103) | (5,575,708) |
| **Total claims provisions at 31 December** | **2,558,616** | **2,729,272** |
| Balance of incurred but not reported at 31 December | 81,933 | 130,535 |
| Balance of notified claims provision at 31 December | 2,476,683 | 2,598,737 |

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

(1) Terms and conditions

The major classes of insurance written by the Company include Life, Property, Marine Transport Means (Hull), Cargo, Third Party Liability, Marine Third-Party Liability, Suretyships, Travel, Road Transport Means, Personal Accident, Motor Third Party Liability, Miscellaneous Financial Loss, Medical (Health).

Risks under these policies usually cover twelve-month duration.

### 16. Insurance contract liabilities and reinsurance assets (continued)

For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilitiesin respect of claims that have occurred and are estimated based on known facts at the reporting date. The provisions are refined consistently as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

For the calculation of the IBNR reserve including the liability adequacy test we refer to note 2 - Summary of accounting policies, Insurance Contract Liabilities.

### 17. Insurance and reinsurance receivables

Insurance and reinsurance receivables as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Due from policyholders | 16,293,673 | 13,595,846 |
| Due from reinsurers | 1,863,762 | 1,703,059 |
| | **18,157,435** | **15,298,905** |
| Less-Allowances for impairment | (1,395,201) | (1,060,341) |
| **Total** | **16,762,234** | **14,238,564** |

The Company creates provision for its overdue accounts receivables. The policy applied for calculation of impairment provision is disclosed in Note 25.

### 18. Other current assets

Other current assets as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Receivables from subrogation | 1,242,477 | 1,004,476 |
| Prepayments | 222,387 | 148,715 |
| Salvage | 34,482 | 28,439 |
| Other receivables | 119,875 | 104,058 |
| | **1,619,221** | **1,285,688** |
| Less-Allwances of impairement for subrogation | (958,250) | (792,807) |
| Less-Allwances of impairement for other receivables | (49,566) | (49,566) |
| **Total** | **611,405** | **443,315** |

### 19. Amounts due from credit institutions

Amounts due from credit institutions as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Principal | 5,884,294 | 5,399,770 |
| Accrued interest | 270,064 | 90,751 |
| **Total** | **6,154,358** | **5,490,521** |

Amounts due from credit institutions are represented by placements in Georgian Banks for more than 3 months. The Georgian State Insurance Supervisory Agency (GSISA) established minimum level of deposits (minimum reserve) and cash on bank accounts dependent on the estimated insurance claims.

Additional information about amounts due from credit institutions is disclosed in Note 25.

## 20. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Cash on current accounts with banks in other currencies | 2,382,330 | 1,984,662 |
| Cash on current accounts with banks in Georgian Lari | 914,725 | 1,365,322 |
| Petty cash | 59,697 | 39,420 |
| Total | **3,356,752** | **3,389,404** |

Additional information about cash and cash equivalents is disclosed in Note 25.

## 21. Other insurance liabilities

Other insurance liabilities as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Reinsurance Payable | 8,450,361 | 8,714,078 |
| Commission Payable | 1,525,744 | 840,001 |
| **Total** | **9,976,105** | **9,554,079** |

## 22. Deffered commission income

Deferred commission income as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **As at 1 January** | **529,825** | **207,312** |
| Income deffered | 1,674,907 | 1,288,969 |
| Amortization (note 5) | (1,458,229) | (966,456) |
| **At 31 December** | **746,503** | **529,825** |

## 23. Borrowed funds

Borrowed funds as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Principal | 142,343 | 705,696 | 102,873 | 1,406,389 |
| Accrued interest | 2,540 | - | 6,129 | - |
| **Total** | **144,883** | **705,696** | **109,002** | **1,406,389** |

Reconciliation of borrowed funds as at 31 December 2017 can be presented as follows:

| | Non- current borrowings | Current borrowings | Total |
|---|---|---|---|
| **At 1 January 2017** | **1,406,389** | **109,002** | **1,515,391** |
| **Cash Flows** | (496,583) | (188,362) | **(684,945)** |
| **Non-cash flows** | | | |
| Effects of foreign exchange | (61,767) | 4,771 | **(56,996)** |
| borrowings classified as non-current at 31 December 2016 becoming current during 2017 | (142,343) | 142,343 | - |
| Interest accruing in the year | - | 77,129 | **77,129** |
| **At 31 December 2017** | **705,696** | **144,883** | **850,579** |

Additional information about borrowed funds is disclosed in Note 25.

## 24. Other liabilities

Other liabilities as at 31 December 2017 and 2016 can be presented as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Financial liabilities** | | |
| Deposited bank guarantee | 290,692 | 614,210 |
| Other liabilities | 105,812 | 66,952 |
| Salary and bonuses payable | - | 76,805 |
| **Non-financial liabilities** | | |
| Received advances | 37,435 | 31,682 |
| **Total** | **433,939** | **789,649** |

### 25. Risk management

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

#### 25.1. Capital management objectives, policies and approach

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

The capital management objectives are:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its owners.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.

The operations of the Company are also subject to local regulatory requirements within the jurisdiction where it operates.

Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise. The Company's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the National Bank of Georgia directives.

The local insurance supervisor establishes the regulation for determining the minimum amount of capital for insurance companies.

As of December 31, 2017 and 2016, the company meet the requirements of minimum mandatory capital with an amount of GEL2,200,000 for life insurance, GEL2,200,000 for non-life insurance and GEL2,200,000 for reinsurance.

According to the resolution dated September 16, 2016, head of the Georgian State Insurance Supervision Service, the amount of supervisory capital of the insurance company should exceed 50% of solvency margin for the period started from January 1, 2017 to July 1, 2017. The amount of supervisory capital of the insurance company should exceed 75% of solvency margin for the period started from July 1, 2017 to January 1, 2018. As of December 31, 2017, the Company meets this requirement.

Also, according to the order of the head of the State Insurance Supervision Service dated 16 September 2016, the amount of the insurer's regulatory capital for insurance activity at all phase of an insurance activity should exceed the minimum capital requirements defined by the Order №04 of State Insurance Supervision Service dated April 20, 2015. As of December 31, 2017, the Company meets this requirement.

#### Approach to capital management

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

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

### 25. Risk management (continued)

### 25.2. Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities.

This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims. The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Company establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Company primarily uses the "loss ratio" to monitor its insurance risk. The loss ratio is defined as net insurance claims divided by net insurance revenue. The Company's loss ratios calculated on a net basis were as follows:

| | 2017 | 2016 |
|---|---|---|
| Loss Ratio | 60% | 62% |

The Company principally issues the following types of general insurance contracts: property, motor third party liability, personal accident, road transport means, travel, cargo, suretyships, medical (health), third party liability, miscellaneous financial loss, marine third-party liability, marine transport means (hull). Risks under non-life insurance policies usually cover twelve months duration. For general insurance contracts the most significant risks arise from climate changes and natural disasters. For healthcare contracts the most significant risks arise from lifestyle changes, epidemic and so on. These risks vary significantly in relation to the location, type and industry of the risk insured. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

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

## 25. Risk management (continued)

The table below sets out the concentration of general insurance contract liabilities by type of contract as at 31 December 2017:

| 2017 | Gross insurance contract Liability | Reinsurer's Share | Net insurance contract liability |
|---|---|---|---|
| Property | 9,437,193 | 7,630,947 | 1,806,246 |
| Healthcare | 7,594,562 | - | 7,594,562 |
| Personal Accident | 1,069,116 | 95,768 | 973,348 |
| Motor Third Party Liability | 868,393 | - | 868,393 |
| Third Party Liability | 670,141 | 411,888 | 258,253 |
| Life insurance | 417,568 | - | 417,568 |
| Road Transport Means | 214,616 | - | 214,616 |
| Aviation Transport Means (Hull) | 178,640 | 113,936 | 64,704 |
| Cargo Transport Means (Hull) | 174,950 | 22,047 | 152,903 |
| Cargo | 120,438 | 47,650 | 72,788 |
| Marine Transport Means (Hull) | 91,993 | 40,430 | 51,563 |
| Travel | 70,372 | 77 | 70,295 |
| Financial Risks | 84,940 | 19,963 | 64,977 |
| Aviation Third Party Liability | 14,902 | 8,504 | 6,398 |
| Marine Third Party Liability | 14,251 | - | 14,251 |
| **Total** | **21,022,075** | **8,391,210** | **12,630,865** |

The table below sets out the concentration of general insurance contract liabilities by type of contract as at 31 December 2016:

| 2016 | Gross insurance contract Liability | Reinsurer's Share | Net insurance contract liability |
|---|---|---|---|
| Property | 21,172,027 | 18,987,491 | 2,184,536 |
| Healthcare | 3,798,441 | - | 3,798,441 |
| Road Transport Means | 1,695,281 | - | 1,695,281 |
| Third Party Liability | 1,415,699 | 265,748 | 1,149,951 |
| Motor Third Party Liability | 268,806 | 20,659 | 248,147 |
| Suretyships | 176,573 | 102,365 | 74,208 |
| Personal Accident | 132,518 | - | 132,518 |
| Cargo | 102,305 | 8,084 | 94,221 |
| Aviation Transport Means (Hull) | 85,015 | 59,057 | 25,958 |
| Financial Risks | 52,672 | 22,185 | 30,487 |
| Marine Transport Means (Hull) | 51,081 | 18,309 | 32,772 |
| Aviation Third Party Liability | 13,206 | 11,897 | 1,309 |
| Travel | 13,030 | 127 | 12,903 |
| Marine Third-Party Liability | 4,759 | 2,380 | 2,379 |
| **Total** | **28,981,413** | **19,498,302** | **9,483,111** |

## 25. Risk management (continued)

### Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the insured sector and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims reserve, it is likely that the outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for IBNR and a reserve for reported claims not yet settled. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims.

The table below represents the analysis of the Company's insurance claims on the basis of both the gross and net cost value of claims.

Possible estimation of total claims is as follows:

**a) Before the effect of reinsurance, the loss development table is:**

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Accident year | 7,194,293 | 8,720,043 | 10,467,128 |
| One year later | 7,323,421 | 7,469,944 | |
| Two year later | 5,834,750 | | |
| **Current estimate of cumulative claims incurred** | **5,834,750** | **7,469,944** | **10,467,128** |
| Accident year | (4,038,285) | (6,111,834) | (8,042,699) |
| One year later | (4,900,728) | (7,507,849) | |
| Two year later | (5,066,628) | | |
| **Cumulative payments to date** | **(5,066,628)** | **(7,507,849)** | **(8,042,699)** |
| **Gross outstanding claims provision per the statement of financial position** | **768,122** | **(37,905)** | **2,424,429** |
| **Current estimation of surplus/(deficiency)** | **1,488,671** | **1,250,099** | |

**b) Reinsurer's share in the loss development:**

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Accident year | (2,456,240) | (1,208,484) | (469,872) |
| One year later | (2,282,554) | (704,729) | |
| Two year later | (1,298,449) | | |
| **Current estimate of reinsurer's share in cumulative claims incurred** | **(1,298,449)** | **(704,729)** | **(469,872)** |
| Accident year | 442,406 | 536,126 | 365,596 |
| One year later | 653,282 | 704,729 | |
| Two year later | 806,695 | | |
| **Reinsurer's share in cumulative payments to date** | **806,695** | **704,729** | **365,596** |
| **Reinsurer's share in outstanding claims provision per the statement of financial position** | **(491,754)** | **-** | **(104,276)** |
| **Current estimation of surplus/(deficiency)** | **(984,105)** | **(503,755)** | |

**25. Risk management (continued)**

c) After the effect of reinsurance, the loss development table is:

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Accident year | 4,738,053 | 7,511,559 | 9,997,256 |
| One year later | 5,040,867 | 6,765,215 | |
| Two year later | 4,536,301 | | |
| **Current estimate of net cumulative claims incurred** | **4,536,301** | **6,765,215** | **9,997,256** |
| Accident year | (3,595,879) | (5,575,708) | (7,677,103) |
| One year later | (4,247,446) | (6,803,120) | |
| Two year later | (4,259,933) | | |
| **Net cumulative payments to date** | **(4,259,933)** | **(6,803,120)** | **(7,677,103)** |
| **Net outstanding claims provision per the statement of financial position** | **276,368** | **(37,905)** | **2,320,153** |
| **Current estimation of surplus/(deficiency)** | **504,566** | **746,344** | |

As can be seen from the claims development table above, the company has prudential estimation of outstanding insurance liabilities.

At the end of each reporting period the Company assess whether its recognized insurance liabilities are adequate: The Company determines whether the amount of recognized insurance liabilities is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of IAS 37 - "Provisions, Contingent Liabilities and Contingent Assets". If it is less, the insurer will recognize the entire difference in profit or loss and increase the carrying amount of the relevant insurance liabilities.

**25.3. Financial Risk**

The Company is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Currency risk

**Principal financial instruments**

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Insurance and reinsurance receivables | 16,762,234 | 14,238,564 |
| Amount due from credit institutions | 6,154,358 | 5,490,521 |
| Cash and cash equivalents | 3,356,752 | 3,389,404 |
| **Total financial assets** | **26,273,344** | **23,118,489** |

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interest bearing financial liabilities | 850,579 | 1,515,391 |
| Other insurance liabilities | 9,976,105 | 9,554,079 |
| Other liabilities | 396,504 | 757,967 |
| **Total financial liabilities** | **11,223,188** | **11,827,437** |

## 25. Risk management (continued)

*Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

In monitoring customer credit risk, customers are grouped according to their overdue status, including whether they are an individual or legal entity, geographic location, industry, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the management, and future sales are made necessary on a prepayment basis.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on ageing analysis and overdue status for each customer individually.

**Aging of insurance receivables**

The aging of insurance receivables as at 31 December 2017 can be presented as follows:

| | Amount | Provision | Insurance and reinsurance receivables, net of impairment |
|---|---|---|---|
| Receivables individually determined to be impaired | 862,658 | (393,561) | 469,097 |

**Receivables collectively determined to be Impaired:**

| | Amount | Provision | Insurance and reinsurance receivables, net of impairment |
|---|---|---|---|
| Not past due | 13 070 585 | - | 13 070,585 |
| Past due 0-30 days | 936,115 | (46,805) | 889,310 |
| Past due 30-60 days | 245,216 | (24,522) | 220,694 |
| Past due 60-90 days | 151,227 | (22,684) | 128,543 |
| Past due 90-120 days | 52,386 | (13,097) | 39,289 |
| Past due 120-240 days | 86,874 | (52,124) | 34,750 |
| Past due 240-360 days | 154,013 | (107,809) | 46,204 |
| Past due more than 360 days | 734,599 | (734,599) | - |
| **Receivables collectively determined to be impaired** | **15,431,015** | **(1,001,640)** | **14,429,375** |

## 25. Risk management (continued)

The aging of insurance receivables as at 31 December 2016 was:

| | Amount | Provision | Insurance and reinsurance receivables, net of impairment |
|---|---|---|---|
| Receivables individually determined to be impaired | 5,133,599 | (636,658) | 4,496,941 |

**Receivables collectively determined to be Impaired:**

| | Amount | Provision | Insurance and reinsurance receivables, net of impairment |
|---|---|---|---|
| Not past due | 7,766,309 | - | 7,766,309 |
| Past due 0-30 days | 129,676 | (2 292) | 127,384 |
| Past due 30-60 days | 60,575 | (6 058) | 54,517 |
| Past due 60-90 days | 41,777 | (6 267) | 35,510 |
| Past due 90-120 days | 26,343 | (6 586) | 19,757 |
| Past due 120-240 days | 53,937 | (32 362) | 21,575 |
| Past due 240-360 days | 45,040 | (31 528) | 13,512 |
| Past due more than 360 days | 338,590 | (338 590) | - |
| **Receivables collectively determined to be impaired** | **8,462,247** | **(423 683)** | **8,038,564** |

### *Liquidity Risk*

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they fall due.

The management controls these types of risks by means of maturity analysis, determining the Company's strategy for the next financial period.

To manage liquidity risk, the Company performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process.

An analysis of the liquidity as at 31 december 2017 is presented in the following table:

| 2017 | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Interest bearing financial liabilities | 13,974 | 23,096 | 107,813 | 697,729 | 7,967 | **850,579** |
| Other insurance liabilities | 1,318,498 | 317,310 | 8,163,390 | 176,907 | - | **9,976,105** |
| Other liabilities | 396,504 | - | - | - | - | **396,504** |
| | **1,728,976** | **340,406** | **8,271,203** | **874,636** | **7,967** | **11,223,188** |
| **Liquidity gap** | **3,852,826** | **631,851** | **11,148,453** | **(575,007)** | **(7,967)** | |
| **Cumulative liquidity gap** | **3,852,826** | **4,484,677** | **15,633,130** | **15,058,123** | **15,050,156** | |

### 25. Risk management (continued)

An analysis of the liquidity as at 31 december 2016 is presented in the following table:

| 2016 | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Interest bearing financial liabilities | 6,129 | 22,896 | 67,720 | 443,495 | 975,151 | **1,515,391** |
| Other insurance liabilities | 1,404,796 | 277,965 | 4,670,437 | 3,200,882 | - | **9,554,079** |
| Other liabilities | 757,967 | - | - | - | - | **757,967** |
| | **2,168,892** | **300,861** | **4,738,157** | **3,644,377** | **975,151** | **11,827,437** |
| **Liquidity gap** | **3,314,041** | **953,540** | **3,729,888** | **4,268,733** | **(975,151)** | |
| **Cumulative liquidity gap** | **3,314,041** | **4,267,582** | **7,997,470** | **12,266,203** | **11,291,052** | |

#### Market Risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk).

#### Interest Rate Risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets - loans, because of the variable rate. In current period the Company does not have any borrowings with variable interest rate.

#### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

| 2017 | GEL | USD<br>USD 1 = 2.5922 GEL | EUR<br>EUR 1 = 3.1044 GEL | CHF<br>CHF 1 = 2.6584 GEL | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Insurance and reinsurance receivables | 9,180,929 | 7,396,662 | 184,643 | - | **16,762,234** |
| Amount due from credit institutions | - | 6,154,358 | - | - | **6,154,358** |
| Cash and cash equivalents | 974,422 | 2,280,191 | 101,011 | 1,128 | **3,356,752** |
| **Total financial assets** | **10,155,351** | **15,831,211** | **285,654** | **1,128** | **26,273,344** |
| | | | | | |
| **Financial liabilities** | | | | | |
| Other insurance liabilities | 2,425,109 | 7,342,501 | 64,031 | 144,464 | **9,976,105** |
| Other liabilities | 295,606 | 99,436 | 1,462 | - | **396,504** |
| Borrowings | - | 850,579 | - | - | **850,579** |
| **Total financial liabilities** | **2,720,715** | **8,292,516** | **65,493** | **144,464** | **11,223,188** |
| **Open balance sheet position** | **7,434,636** | **7,538,695** | **220,161** | **(143,336)** | |

## 25. Risk management (continued)

The Company's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

| 2016 | GEL | USD<br>USD 1 =<br>2.3949 GEL | EUR<br>EUR 1 =<br>2.6169 GEL | CHF<br>CHF 1 =<br>2.4162 GEL | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Insurance and reinsurance receivables | 4,995,318 | 8,978,467 | 264,779 | - | **14,238,564** |
| Amount due from credit institutions | - | 5,490,521 | - | - | **5,490,521** |
| Cash and cash equivalents | 1,404,742 | 1,665,265 | 304,481 | 14,916 | **3,389,404** |
| **Total financial assets** | **6,400,060** | **16,134,253** | **569,260** | **14,916** | **23,118,489** |
| **Financial liabilities** | | | | | |
| Other insurance liabilities | 2,337,971 | 6,661,644 | 285,946 | 268,518 | **9,554,079** |
| Other liabilities | 726,643 | 29,924 | 1,400 | - | **757,967** |
| Borrowings | - | 1,515,391 | - | - | **1,515,391** |
| **Total financial liabilities** | **3,064,614** | **8,206,959** | **287,346** | **268,518** | **11,827,437** |
| **Open balance sheet position** | **3,335,446** | **7,927,294** | **281,914** | **(253,602)** | |

*Currency risk sensitivity*

The following table details the Company's sensitivity to a 20% increase and decrease against the GEL. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 20% change in foreign currency rates.

Impact on net profit and equity based on asset values as at 31 December 2017 and 2016:

| | **USD impact** | | **EUR impact** | | **CHF impact** | |
|---|---|---|---|---|---|---|
| **2017** | **GEL/USD**<br>**20%** | **GEL/USD**<br>**- 20%** | **GEL/EUR**<br>**20%** | **GEL/EUR**<br>**- 20%** | **GEL/CHF**<br>**20%** | **GEL/CHF**<br>**- 20%** |
| Profit/(loss) | 1,507,739 | (1,507,739) | 44,032 | (44,032) | (28,667) | 28,667 |

| | **USD impact** | | **EUR impact** | | **CHF impact** | |
|---|---|---|---|---|---|---|
| **2016** | **GEL/USD**<br>**20%** | **GEL/USD**<br>**- 20%** | **GEL/EUR**<br>**20%** | **GEL/EUR**<br>**- 20%** | **GEL/CHF**<br>**20%** | **GEL/CHF**<br>**- 20%** |
| Profit/(loss) | 1,585,459 | (1,585,459) | 56,383 | (56,383) | (50,720) | 50,720 |

## 26. Prior period reclassification

Following reclassifications have been made to the financial statements as at 31 December 2016:

| Financial statements caption | Amount before restatement | Reclassification amount | Amount after restatement | Description |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Other liabilities | 835,685 | (46,036) | 789,649 | Tax liabilities were separately disclosed in the financial statements |
| Tax liabilities | 199,031 | 46,036 | 245,067 | |

### 27. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 'Related party disclosures', represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Company that gives then significant influence over the Company; and that have joint control over the Company;

b) Members of key management personnel of the Company or its parent;

c) Close members of the family of any individuals referred to in (a) or (b);

d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Company and other related parties are disclosed below:

Included in the statement of comprehensive income for the years ended December 31, 2017 and 2016 are the following amounts which were recognized in transactions with related parties:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Related party transactions | Total category as per the financial statements caption | Related party transactions | Total category as per the financial statements caption |
| **Key management personnel compensation:** | | | | |
| Short-term employee benefit | (519,390) | (3,254,710) | (615,614) | **(3,165,053)** |

### 28. Commitments and contingencies

**Legal proceedings** - As at 31 December 2017 and 2016 the Company was not engaged in any material litigation proceedings. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

**Taxes** - Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

**Operating environment** - Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

### 29. Post balance sheet events

There have been no subsequent events that need to be disclosed in the financial statements.