JSC Insurance Company Alpha

Individual Financial Statements

For the year ended 31 December 2016

Together with Independent Auditor's Report

Content:

Individual Financial Statements

Notes to the Individual Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of JSC Insurance Company Alpha

Report on the Audit of the Individual Financial Statements

Qualified Opinion

We have audited the individual financial statements of JSC Insurance Company Alpha (the Company), which comprise the individual statement of financial position as at 31 December 2016, and the individual statement of comprehensive income, individual statement of changes in equity and individual statement of cash flows for the year then ended, and notes to the individual financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying individual financial statements present fairly, in all material respects, the individual financial position of of JSC Insurance Company Alpha as at 31 December 2016, and its individual financial performance and its individual cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

At the end of the year 31, December 2016, there was some indication of impairment of property, plant and equipment and intangible assets. The Company did not estimate the recoverable amount of the property, plant and equipment and intangible assets. We were unable to obtain sufficient and appropriate audit evidence about the carrying amount of property, plant and equipment and intangible assets included in the individual statement of financial position as at 31 December 2016 at a total amount of GEL536 thousands and GEL285 thousands, respectively. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of property, plant and equipment and intangible assets and the elements making up the individual financial statements.

As described in the note 9 during the year 2016 The Company has disposed investment in subsidiary. The transaction was made with related party. The Company has not provide fair value calculation of investment disposed, as a result of this matter were unable to obtain sufficient and appropriate audit evidence regarding to gain from disposal of investment in subsidiary included in the individual statement of comprehensive income for the year ended 31 December 2016 at a total amount of GEL5,274 thousands. As a result of these matters, we were unable to determine whether an

y adjustments might have been found necessary in respect of gain from disposal of investment in subsidiary and the elements making up the individual financial statements.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the individual financial statements

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

In preparing the individual 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 individual financial reporting process.

Auditor's Responsibilities for the Audit of the individual financial statements

Our objectives are to obtain reasonable assurance about whether the individual 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 individual financial statements.

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

- Identify and assess the risks of material misstatement of the individual 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 individual 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 individual 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 individual 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.

18 April 2017

BDO LLC

JSC INSURANCE COMPANY ALPHA

INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Thousands of Georgian Lari)

		2016	2015
Gross written premiums on insurance contracts		6,215	8,055
Reinsurer's share of gross written premium on insurance contracts		(558)	(708)
Net written premium		**5,657**	**7,347**
Changes in provision for unearned premiums		(873)	1,387
Changes in the re-insurers portion in provision for unearned premiums		51	150
Net insurance premiums earned	4	**4,835**	**8,884**
Commission income	5	175	189
Total insurance revenue		**5,010**	**9,073**
Other operating income		32	37
Total operating income		**5,042**	**9,110**
Insurance claims and loss adjustment expenses		(4,498)	(8,530)
Insurance claims and loss adjustment expenses recovered from reinsurers		295	451
Net insurance claims incurred	6	**(4,203)**	**(8,079)**
Employee benefit expenses		(1,132)	(1,491)
Depreciation and amortization expenses	16,17	(133)	(171)
Rent cost		(95)	(92)
Changes in inventories		(4)	8
Cost of goods purchased		(29)	(103)
Other operating expenses	7	(593)	(678)
Operating expenses		**(1,986)**	**(2,527)**
Results from operating activities		**(1,147)**	**(1,496)**
Financial income	8	1,089	350
Finance costs		(9)	(24)
Net gain (loss) from foreign currencies		7	22
Gain from disposal of investment in subsidiary	9	5,274	-
Profit/(loss) before income tax expense		**5,214**	**(1,148)**
Income tax expense	10	-	-
Profit/(loss) for the year		**5,214**	**(1,148)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**5,214**	**(1,148)**

Idndividual financial statements for the year ended 31 December 2016 were approved on behalf of the management on 18 April 2017 by::

General Director _______________ K. Diasamidze

Financial Director _______________ G. Gvetadze

The accompanying notes on pages 10 to 33 are an integral part of these individual financial statements.

JSC INSURANCE COMPANY ALPHA

INDIVIDUAL STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Thousands of Georgian Lari)

	Note	2016	2015
Assets			
Cash and cash aquivalents	11	4,571	6,876
Placement with banks	12	1,009	59
Insurance and reinsurance receivables	13	3,903	2,816
Trade and other receivables	14	12,144	229
Reinsurance assets	15	351	340
Tax assets other than income tax		17	68
Inventory		37	41
Property and equipment	16	536	570
Intangible assets	17	285	374
Investments in subsidiary	9	-	8,368
Total assets		**22,853**	**19,741**
Equity			
Share capital	18	36,116	32,120
Accumulated loss		(20,454)	(25,668)
Total equity		**15,662**	**6,452**
Liabilities			
Insurance contract liabilities	15	6,065	8,498
Other insurance liabilities	19	114	40
Trade and other payables	20	921	2,672
Borrowings	21	-	2,001
Deferred commission income	5	91	78
Total liabilities		**7,191**	**13,289**
Total equity and liabilities		**22,853**	**19,741**

The accompanying notes on pages 10 to 33 are an integral part of these individual financial statements.

INDIVIDUAL STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	Note	Share capital	Accumulated loss	Total
Balance at 1 January 2015		**29,000**	**(24,520)**	**4,480**
Increase in share capital		3,120		**3,120**
Total comprehensive loss for the year			(1,148)	**(1,148)**
Balance at 31 December 2015	18	**32,120**	**(25,668)**	**6,452**
Increase in share capital		3,996	-	**3,996**
Total comprehensive income for the year		-	5,214	**5,214**
Balance at 31 December 2016	18	**36,116**	**(20,454)**	**15,662**

The accompanying notes on pages 10 to 33 are an integral part of these individual financial statements.

JSC INSURANCE COMPANY ALPHA

INDIVIDUAL STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

(Thousands of Georgian Lari)

	2016	2015
Cash flows from operating activities		
Insurance premiums received	4,956	9,209
Other income received	332	350
Interest received from deposits	520	419
Withdrawal of placement with banks	50	1,246
Increase in placement with banks	(1,000)	-
Insurance claims paid	(9,557)	(9,562)
Salaries and other employee benefits paid	(1,232)	(1,422)
Amounts paid to reinsurers	(38)	(242)
Commissions paid	(19)	(17)
Other expenses paid	(484)	(621)
Cash outflows from operating activities	**(6,472)**	**(640)**
Interest paid	(11)	(25)
Cash outflows from operating activities	**(6,483)**	**(665)**
Cash flows from investing activities		
Purchase of property and equipment	(6)	(37)
Purchase of intangible assets	-	(82)
Proceeds from disposal of investment in subsidiary	2,190	-
Cash inflows/(outflow) from investing activities	**2,184**	**(119)**
Cash flows from financing activities		
Receipt of borrowed funds	2,905	2,000
Repayment of borrowed funds	(4,905)	(1,200)
Contribution in share capital	3,996	3,120
Cash inflows from financing activities	**1,996**	**3,920**
Net increase/(decrease) in cash and cash equivalents	(2,303)	3,136
Cash and cash equivalents beginning of the year	**6,876**	**3,739**
Effect of exchange rates changes on cash and cash equivalents	(2)	1
Cash and cash equivalents at the end of the year	**4,571**	**6,876**

The accompanying notes on pages 10 to 33 are an integral part of these individual financial statements.

1. General information

JSC Insurance Company Alpha (the "Company") was established in 2009. The Company possesses insurance license issued by the National Bank of Georgia for life and non-life insurance products. Insurance Company Alpha offers complete non-life insurance package for corporate and individual clients. It includes health property motor transport travel cargo and so on.

Headquarter of the Company is located in Tbilisi. The Company's legal address is 16 Kazbegi St. Tbilisi Georgia.

As at 31 December 2016 and 2015 the Company was 100%-owned by LTD Aversi Pharma. LTD Aversi Pharma is 67% and 33% owned by the ultimate shareholders Paata Kurtanidze and Nikoloz Kurtanidze respectively.

As at 31 December 2015 the Company owned (100% share) a subsidiary - LTD Medalpha which main activity is healthcare service. In the year 2016 the Company disposed investment in subsidiary (Note 9).

2. Summary of significant accounting policy

Principal accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

2.1 Basis of preparation

a) Statement of compliance

These individual financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs)

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 are disclosed in Note 3.

b) Basis of measurement

The financial statements have been prepared under the historical cost bases. Amounts are rounded to the nearest thousand, unless otherwise stated.

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

c) Going concern

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 shareholder have the intention to further develop the business of the Company in Georgia. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The management believes that the going concern assumption is appropriate for the Company.

2.2 Adoption of new or revised standards and interpretations

a) New standards interpretations and amendments effective from 1 January 2016

None of the new standards interpretations and amendments effective for the first time from 1 January 2016 have had a material effect on the 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 2016 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 policy (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.

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" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However management can make an irrevocable election to present changes in fair value in other comprehensive income provided the instrument is not held for trading. If the equity instrument is held for trading changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

(Thousands of Georgian Lari)

2. Summary of significant accounting policy (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.
- Derecognition requirements of financial assets and liabilities are transferred from IAS 39.

The Company is currently assessing the possible impact of the new standard on its financial statements.

2.3 Investment in subsidiary

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are accounted for under the cost method from the date that control commences until the date that control ceases.

2.4 Foreign currency translation

a) Functional and presentation currency

Items included in the individual financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Individual 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 2016 and 2015 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	EUR
Exchange rate as at 31.12.2016	2.6468	2.7940
Exchange rate as at 31.12.2015	2.3949	2.6137

2.5 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.

2.6 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 premium is earned;

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. Summary of significant accounting policy (continued)

2.7 Liability adequacy test

At each end of the reporting period the Company assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency are be recognised in profit or loss.

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. 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.

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 contract

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 financial assets held at amortised cost. 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).

2. Summary of significant accounting policy (continued)

(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 and is calculated based on the Company's past experience. The amount of reserve for incurred but not reported insurance claims is reflected in the Company's balance as liabilities.

2.11 Insurance revenue and reinsurance expenses

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of written in prior accounting periods. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts. Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

2.12 Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories: financial assets 'at fair value through profit or loss (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables', depending on the purpose for which the asset was acquired.

The Company's financial assets represent loans and receivables. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. Insurance and reinsurance receivables), but also incorporate other types of contractual monetary asset. 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 recognised 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 insurance and reinsurance receivables,

2. Summary of significant accounting policy (continued)

which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within other operating expenses in the statement of profit or loss and other comprehensive income. On confirmation that the financial assets will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's loans and receivables comprise reinsurance assets, insurance and reinsurance receivables, trade and other receivables, placements with banks and cash and cash equivalents in the statement of financial position. Cash and cash equivalents include cash on hand and current accounts with banks. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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 financial liabilities represent financial liabilities at amortised cost. Financial liabilities at amortised cost include the following items:

- Borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Offset of financial assets and liabilities

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.

Derecognition of financial assets

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.

2.13 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and provision for impairment where required. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating.

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 charged to the statement of profit or loss.

2. Summary of significant accounting policy (continued)

Depreciation is calculated on a straight line basis at the following useful lives:

Group	Useful,life,(year)
Buildings	50
Computers	5
Office,equipment	5
Vehicles	10

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

2.14 Intangible Assets

Software

Intangible assets are stated at cost less accumulated amortization and provision for impairment where required. 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.

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. Amortization is calculated on a straight line basis during 5 years.

2.15 Impairement of tangible and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss and other comprehensive income.

2.16 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.

2. Summary of significant accounting policy (continued)

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. 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.

2.17 Share capital

The amount of Company's authorised Share capital is defined by the Company's Charter. The changes in the Company's Charter (changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's shareholders. The authorised capital is recognised as share capital in the equity of the Company to the extent that it was contributed by the shareholders to the Company. Sharehholders constribution is recognised at the fair value. Share capital is recognized at nominal value. Difference in contribution fair value and shares nominal value are recognised as emission capital.

2.18 Financial and 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.

3. Significant accounting estimates and judgments

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 non-life 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 General insurance claims provisions are not discounted for the time value of money.

b) Useful lives of property equipment and intangible assets

Property equipment and intangible assets 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.

c) Impairement of tangible and intangible assets

The Company periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company estimates the recoverable amount of the asset. This requires the Company to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the financial statements.

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 allowance are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of joint evaluation of financial assets not being material individually.

(Thousands of Georgian Lari)

4. Net insurance premiums earned

Net insurance premium earned by insurance types 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	Changes in provision for unearned premiums net of reinsurance	Net insurance premiums earned
Health	5,120	-	5,120	(766)	4,354
Casco	577	(237)	340	(36)	304
Property	394	(260)	134	(13)	121
Cargo	68	(46)	22	(3)	19
Travel	21	-	21	-	21
Personal,accident	24	(8)	16	(1)	15
Other,liabilities	11	(7)	4	(3)	1
Total	**6,215**	**(558)**	**5,657**	**(822)**	**4,835**

Net insurance premium earned by insurance types for the year ended 31 December 2015 can be presented as follows:

	Gross written premium	Reinsurer's share in gross written premium	Net written premium	Changes in provision for unearned premiums net of reinsurance	Net insurance premiums earned
Health	6,605	-	6,605	1,524	8,129
Casco	912	(431)	480	(19)	461
Property	445	(242)	203	31	234
Cargo	38	(25)	13	-	13
Travel	34	-	34	-	34
Personal,accident	20	(9)	11	(1)	10
Other,liabilities	1	-	1	2	3
Total	**8,055**	**(708)**	**7,347**	**1,537**	**8,884**

5. Commission income

Commission income for the years ended 31 December 2016 and 2015 can be presented as follows:

	2016	2015
As at 1 January	**78**	**20**
Gross written commission	188	247
Commision income recognised duaring the year	(175)	(189)
At 31 December	**91**	**78**

(Thousands of Georgian Lari)

6. Net insurance claims incurred

Net insurance claims incurred for the years ended 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Insurance claims paid	(7,920)	(9,946)
Gross Change in outstanding claims	3,306	1,218
Subrogation	116	198
Insurance claims and loss adjustment expenses	**(4,498)**	**(8,530)**
Reinsurer's share of general insurance claims paid	335	371
Reinsurer's share of change in outstanding claims	(40)	80
Insurance claims and loss adjustment expenses recovered from reinsurers	**295**	**451**
Net insurance claims incurred	**(4,203)**	**(8,079)**

7. Other operating expenses

Other operating expenses for the years ended 31 December 2016 and 2015 can be presented as follows

	2016	2015
Impairment of accounts receivable and other debtors	(173)	(321)
Professional services	(119)	(123)
Taxes other than income tax	(50)	(33)
Marketing expenses	(38)	(11)
Fines and penalties	(37)	(27)
Acquisition cost	(34)	(33)
Communication	(30)	(33)
Bank charges	(13)	(13)
Membership fee	(12)	(10)
Commission expense	(11)	(9)
Business trip	(11)	(2)
Insurance	(10)	(10)
Other	(55)	(53)
Total	**(593)**	**(678)**

8. Financial income

Financial income represents interest income incured on placements with resident banks. Financial income for the years ended 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Interest income from financial institution	538	350
Amortisation of receivabl from subsidiary disposal	551	-
Total	**1,089**	**350**

(Thousands of Georgian Lari)

9. Gain from disposal of investment in subsidiary

Gain from disposal of investment in subsidiary for the years ended 31 December 2016 can be presented as follows:

	2016
Fair value of consideration received	13,642
Cost of investment in subsidiary	(8,368)
Gain from disposal of investment in subsidiary	**5,274**

On 19 September 2016 The Company disposed 100% share of investment in subsidiary. The transaction was made with shareholder at nominal price GEL15,540 thousends. Due to the agreement shareholder is permitted to make payment till 31 December 2017. The fair value of consideration received was calculated according discounted future cash flow. The Company used 10% as discount rate.

10. Income tax expense

As at 31 December 2016 and 2015 the Company has accumulated tax losses. Based on the management's assessment there is uncertainty related to the use of above-mentioned tax losses in the future accordingly the management has not recognized deferred income tax asset related to the tax losses. As at 31 December 2016 and 2015 unrecognised deferred tax asset was GEL1,271 thousends and GEL2,740 thousends, respectively.

11. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2016 and 2015 can be presentedas follows:

	2016	2015
Cash in banks	4,464	6,769
Cash on hand	8	11
Restricted cash*	99	96
Total	**4,571**	**6,876**

*Cash and cash equivalents at 31 December 2016 and 2015 included restricted cash placed on a bank account as tender collateral.

Additional information about cash and cash equivalents is disclosed in note 22 and note 24.

12. Placements with banks

Placement with banks as at 31 December 2016 and 2015 can be presentedas follows:

	2016	2015
Principal	1,000	50
Accrued interest	9	9
Total	**1,009**	**59**

Placements with banks are represented by placements in Georgian Banks for more than 3 months. LEPL Insurance State Supervision Service of Georgia established minimum level of deposits (minimum reserve) and cash on bank accounts depended on the estimated insurance claims.

Additional information about placements with banks is disclosed in note 22 and note 24.

(Thousands of Georgian Lari)

13. Insurance and reinsurance receivables

Insurance and reinsurance receivables as at 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Due from policyholders (health insurance)	3,453	2,428
Due from policyholders (non-health insurance)	521	390
Due from reinsurers	-	72
Total receivable	**3,974**	**2,890**
Less-Allowances for receivables from policyholders	(71)	(74)
Net receivables	**3,903**	**2,816**

Carrying amounts of insurance and reinsurance receivables approximate their fair value due to short term maturities. Additional information about Insurance and reinsurance receivables is disclosed in Note 22.

Ageing of trade receivables as at 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Current	3,207	2,456
Past due and not impaired		
Past due 0-30 days	90	61
Past due 31-60 days	178	51
Past due 61-90 days	94	32
Past due 91-120 days	92	4
Past due 121-240 days	101	15
Past due 241-360 days	-	8
Past due more than 365 days	-	3
Total Past due and not impaired	**555**	**174**
Past due and impaired		
Past due 0-30 days	143	201
Past due 31-60 days	12	10
Past due 61-90 days	6	7
Past due 91-120 days	3	4
Past due 121-240 days	48	8
Past due 241-360 days	-	4
Past due more than 365 days	-	26
Total Past due and impaired	**212**	**260**
Less Provision for impairment	(71)	(74)
Net receivable	**3,903**	**2,816**

As at 31 December 2016 and 2015 past due but not impaired trade receivables relate to the related parties. The Company has provided 100% impairment for all insurance and reinsurance receivables which were over 365 days based on historical experience that such receivables are generally not recoverable. Insurance and reinsurance receivables between 1 and 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience and are regularly reassessed based on facts and circumstances existing at each reporting date.

(Thousands of Georgian Lari)

13. insurance and reinsurance receivables (continued)

Reconciliation of impairment allowance can be presented as follows:

	2016	2015
1 January (Note 14;15)	**(156)**	**(61)**
Impairment losses recognized during the year	(173)	(321)
Write off	57	226
31 December (Note 14;15)	**(272)**	**(156)**

Accordingly, management believes that there is no further credit provision required in excess of the established allowance for doubtful debts. The movement in the impairment allowance for insurance and reinsurance receivables and other financial assets has been included in the other operating expenses line in the statement of comprehensive income. Trade receivables distribution by foreign currency is disclosed in Note 22.

14. Trade and other receivables

Trade and other receivables as at 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Financial assets		
Receivable from subsidiary disposal	12,003	-
Receivables from subrogation reimbursements	173	148
Less-Allowances for receivables from subrogation reimbursements	(153)	(82)
Total financial receivables	**12,023**	**66**
Non-financial assets		
Prepayments	125	152
other receivables	44	11
Less-Allowances for non financial receivables	(48)	-
Total non-financial receivables	**121**	**163**
Total	**12,144**	**229**

Carrying amounts of trade receivables approximate their fair value. Additional information about trade and other receivables is disclosed in Note 22.

(Thousands of Georgian Lari)

15. Reinsurance assets and insurance contract liabilities

Reinsurance assets and insurance contract liabilities as at 31 December 2016 and 2015 can be presented as follows:

Insurance contract liabilities	2016	2015
Unearned premium provision	3,347	2,474
Provisions for claims reported by policyholders	2,554	5,817
Provisions for claims incurred but not reported (IBNR)	164	207
Total	**6,065**	**8,498**

Reinsurance of liabilities	2016	2015
Reinsurers' share in unearned premium provision	286	235
Reinsurers' share in provisions for claims reported by policyholders	37	85
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	28	20
Total	**351**	**340**

Insurance contract liabilities net of reinsurance	2016	2015
Unearned premium provision	3,061	2,239
Provisions for claims reported by policyholders	2,517	5,732
Provisions for claims incurred but not reported (IBNR)	136	187
Total	**5,714**	**8,158**

Analysis of movements in insurance contract liabilities and reinsurance assets as at 31 December 2016 2015 can be presented as follows:

A) Analyses of movement in provision for unearned premium

Provision for unearned premium gross	2016	2015
Balance at 1 January	**2,474**	**3,861**
Gross premium Written	6,376	8,830
Cancelled premiums	(161)	(775)
Gross earned premium	(5,342)	(9,442)
Balance at 31 December	**3,347**	**2,474**

provision for unearned premium - reinsurer's share:	2016	2015
Balance at 1 January	235	85
Reinsurer's share of gross written premium	561	708
Cancelled premiums	(3)	-
Gross reinsurer's earned premium	(507)	(558)
Balance at 31 December	**286**	**235**

provision for unearned premium - (net of reinsurance)	2016	2015
Balance at 1 January	2,239	3,776
Reinsurer's share of gross written premium	5,815	8,122
Cancelled premiums	(158)	(775)
Gross reinsurer's earned premium	(4,835)	(8,884)
Balance at 31 December	**3,061**	**2,239**

(Thousands of Georgian Lari)

15. Reinsurance assets and insurance contract liabilities (continued)

b) Provision for claims

	2016	2015
Total balance of claims provisions at 1 January	**6,024**	**7,241**
Payements in respect of prior and current year claims	(7,919)	(9,946)
New claims and changes in prior year claims	4,613	8,729
Provisions for claims reported by policyholders	**2,718**	**6,024**

Provision for claims - reinsurer's share:	2016	2015
Total balance of claims provisions at 1 January	105	25
Payements in respect of prior and current year claims	(335)	(371)
New claims and changes in prior year claims	295	451
Total claims provisions at 31 December	65	105

Provision for claims - (net of reinsurance)	2016	2015
Total balance of claims provisions at 1 January	**5,919**	**7,216**
Payements in respect of prior and current year claims	(7,584)	(9,575)
New claims and changes in prior year claims	4,318	8,278
Total claims provisions at 31 December	**2,653**	**5,919**

The major classes of insurance written by the Company include health, life, property, third party liability, casco, travel, personal accident and cargo. Risks under these policies usually cover twelve month duration. For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date. Outstanding claims provisions are not discounted for the time value of money.

16. Property and equipment

Property and equipment as at 31 December 2016 and 2015 can be presented as follows:

Historical,cost	Land and buildings	Computer equipment	Office equipment	Vehicles	Total
As at 31.12.2014	**564**	**275**	**127**	**11**	**977**
Additions	8	8	29	-	**45**
Disposals	-	(17)	(11)	-	**(28)**
As at 31.12.2015	**572**	**266**	**145**	**11**	**994**
Additions	-	4	2	-	**6**
Disposals	-	(6)	(9)	-	**(15)**
As at 31.12.2016	**572**	**264**	**138**	**11**	**985**
Accumulated depreciation					
As at 31.12.2014	(54)	(227)	(96)	-	**(377)**
depreciation	(12)	(34)	(24)	(1)	**(71)**
Accumulated depreciation of disposals	-	14	10	-	**24**
As at 31.12.2015	**(66)**	**(247)**	**(110)**	**(1)**	**(424)**
depreciation	(14)	(9)	(16)	(1)	**(40)**
Accumulated depreciation of disposals	-	6	9	-	**15**
As at 31.12.2016	**(80)**	**(250)**	**(117)**	**(2)**	**(449)**
Net book value					
As at 31.12.2015	**506**	**19**	**35**	**10**	**570**
As at 31.12.2016	**492**	**14**	**21**	**9**	**536**

Due to the lawsuite with the Company's provider clinic the Company is restricted to sale or encumber its real estate and a motor vehicle.

(Thousands of Georgian Lari)

17. Intangible assets

Intangible assets as at 31 December 2016 and 2015 can be presented as follows:

Historical cost	Softwares
As at 31.12.2014	345
Additions	230
As at 31.12.2015	575
Additions	4
As at 31.12.2016	579
Accumulated amortization	
As at 31.12.2014	(102)
Amortization	(99)
As at 31.12.2015	(201)
Amortization	(93)
As at 31.12.2016	(294)
Net book value	
As at 31.12.2014	243
As at 31.12.2015	374
As at 31.12.2016	285

Company's softwares include insurance and accounting softwares.

18. Share capital

In 2016 100% shareholder of the Company contributed GEL3,995,800 in the capital. As at 31 December 2016 number of issued and fully paid shares were 34,396,000 with nomunal value GEL1.05. As at 31 December 2015 number of issued and fully paid shares were 32,120,000 and number of issued but not fully paid were 180,000 with nomunal value GEL1.

19. Other insurance liabilities

Other insurance liabilities as at 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Reinsurance payable	75	26
Commission payable	39	14
Total	**114**	**40**

Carrying amounts of other insurance liabilities approximate their fair value. Additional information about other insurance liabilities is disclosed in Note 22.

20. Trade and other payables

Trade and other payables as at 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Financial liabilities		
Trade payables	819	2 459
Salaries payable	102	129
Other payables	-	84
Total	**921**	**2 672**

Carrying amounts of trade and other payables approximate their fair value. Additional information about trade and other payables is disclosed in Note 22.

(Thousands of Georgian Lari)

21. Borrowings

Borrowings as at 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Principal	-	2,000
Accrued interest	-	1
Total	**-**	**2,001**

Additional information about borrowings is disclosed in Note 22.

22. Financial instruments - 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. Each individual 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.

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.

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.

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.

22. Financial instruments - risk management (continued)

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:

	2016	2015
Loss ratio	84%	89%

The Company principally issues the following types of general insurance contracts: property motor third party liability personal accident casco travel cargo medical (health) and third party liability. Such type insurance policies usually cover twelve months duration. For non-health 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 has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements.

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 final outcome will prove to be different from the original liability established. The liability for these contracts comprises a reserve for Incurred but not reported (IBNR) claims 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.

Financial Risk

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

- Credit risk
- Liquidity risk
- Currency risk

(Thousands of Georgian Lari)

22. Financial instruments - risk management (continued)

Principal financial instruments

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

	2016	2015
Reinsurance assets	65	105
Insurance and reinsurance receivables, net of impairement	3,903	2,816
Trade and other receivables, net of impairement	12,023	66
Placements with banks	1,009	59
Cash and cash equivalents	4,571	6,876
Total financial assets	**21,571**	**9,922**

	2016	2015
Insurance contract liabilities	2,718	6,024
Other insurance liabilities	114	40
Trade and other payables	921	2,588
Borrowings	-	2,001
Total financial liabilities	**3,753**	**10,653**

Fair value of financial instruments

A number of assets and liabilities included in the Company's financial statements require disclosure of, fair value. The fair value measurement of the Company's financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur.

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 estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of financial assets approximate fair value due to their short term maturities.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Company considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair value.

The fair value of cash and cash equivalents were determined using level 1 measurement and the fair value of other financial assets and liabilities were determined using level 3 measurement.

(Thousands of Georgian Lari)

22. Financial instruments - 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.

The Company's Management has established a credit policy under which each customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings when available and in some cases bank references. Credit limits are established for each customer individually.

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 Companys 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 customers individually.

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 actually fall due. The management controls these types of risks by means of maturity analysis determining the Company's strategy for the next financial period. In order 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 of 31 December 2016 and 2015 can be presented as follow:

Less than 1 year	2016	2015
Non-interest bearing financial liabilities:		
Insurance contract liabilities	2,718	6,024
Other insurance liabilities	114	40
Trade and other payables	921	2,588
Interest bearing financial liabilities:		
Borrowings	-	2,001
Total financial liabilities	**3,753**	**10,653**

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/liabilities - loans/borrowing because of the variable rate. In current period the Company does not have any borrowings/loans 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.

(Thousands of Georgian Lari)

22. Financial instruments - risk management (continued)

The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities as at 31 December 2016 and 2015 were as follows:

	2016	2015
Financial assets		
Insurance and reinsurance receivables	143	72
Cash and cash equivalents	12	49
Total financial assets	**155**	**121**
Financial liabilities		
Other insurance liabilities	75	26
Total financial liabilities	**75**	**26**
Open balance sheet position	**80**	**95**

The following table details the Company's sensitivity to a 20% increase and decrease in the GEL against the relevant foreign currencies. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. Impact on profit before tax and equity based on asset values is presented in the table below:

	USD/GEL + 20%	USD/GEL - 20%	USD/GEL + 20%	USD/GEL - 20%
Profit/(loss) before tax	16	(16)	19	(19)
Impact on equity	13	(13)	16	(16)

23. Transactions with related parties

Related parties include owners, subsidiary and entities under common ownership and control with the Group and members of key management personnel. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Transactions with related parties and balances for the years ended 31 December 2016 are following:

	2016		
Balance with related parties	**Owners**	**Entities under common control**	**Total**
Insurance and reinsurance receivables	92	464	**556**
Trade and other receivables	-	66	**66**
Insurance contract liabilities	92	529	**621**
Trade and other payables	426	926	**1,352**
Borrowings	786	-	**786**
Transaction with related parties			
Gross written premiums on insurance contracts	134	5	**139**
Insurance claims and loss adjustment expenses	(984)	(3,143)	**(4,127)**
Rent cost	(81)	(6)	**(87)**
Financial income	551	-	**551**
Finance costs	-	(9)	**(9)**
Gain from disposal of investment in subsidiary	5,274	-	**5,274**

(Thousands of Georgian Lari)

23. Transactions with related parties (continued)

Transactions with related parties and balances for the years ended 31 December 2015 are following:

	2015		
Balance with related parties	**Owners**	**Entities under common control**	**Total**
Insurance and reinsurance receivables	32	140	**172**
Insurance contract liabilities	15	3,447	**3,462**
Trade and other payables	2,361	61	**2,422**
Borrowings	1,101	900	**2,001**
Transaction with related parties			
Gross written premiums on insurance contracts	119	18	**137**
Insurance claims and loss adjustment expenses	(200)	(3,681)	**(3,881)**
Rent cost	(69)	(6)	**(75)**
Financial income	-	-	**-**
Finance costs	-	(24)	**(24)**
Gain from disposal of investment in subsidiary	-	-	**-**

Key management personnel compensation for the year ended 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Key management personnel compensation:		
short-term employee benefits	(148)	(175)
	(148)	(175)

24. Contingencies and Commitments

Legal proceedings - As at 31 December 2016 the Company was engaged in three material litigation proceedings with regard to the reimbursement of insurance cover.

The first case is related to health insurance loss reimbursement. Total amount of compensation that litigant requests is GEL625,498. Claim amount consists of principal loss, interest and penalties. The Company made provision of GEL295,000 with regard to this litigation in provisions for claims reported by policyholders. No provision has been made with regard to the remaining amount.

Second and third cases are related to Casco loss reimbursement. Total amount of compensation that litigants request is GEL29,325 without penalties.

Management is of the opinion that no material unaccrued losses will be incurred and accordingly no additional 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 Company may be assessed additional taxes, penalties and interest. The Company 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.

Regulatory requirements - The Company is obliged to satisfy minimum capital requirements at all stages of insurance activity. Minimum capital requirements are determined by the LEPL Insurance State Supervision Service of Georgia. As at 31 December 2016 minimum capital required for the company amounted to GEL2,200 thousands. Furthermore, during the whole period of its activity, the Company is obliged to have national or foreign currency and/or debt securities placed in commercial bank of Georgia, the amount of which is determined according to the minimum capital required by the legislation of Georgia for insurance organisations registered in Georgia. As at 31 December 2016 minimum placement required for the company amounted to GEL2,200 thousands.

(Thousands of Georgian Lari)

24. Contingencies and commitments (continued)

LEPL Insurance State Supervision Service of Georgia also requires the Company to have assets for covering insurance reserves. The assets permitted to cover insurance reserves are determined by the Regulatory body. Due to the same requirement, the Company has to maintain cash and cash equivalents, not less than 10% of total insurance reserves, placed in commercial bank of Georgia. As at 31 December 2016 the Company was using cash and cash equivalents as well as placements with banks for covering insurance reserves.

Future rentals payable - The company has operating leased contracts which completion date is uncertain (unlimited duration). The Company's future minimum rentals payable under non-cancellable operating leases as of 31 December 2016 and 2015 can be presented as follows:

	2016	2015
Within one year	94	86
After one year but not more than five years	196	280
Total	**290**	**366**

25. Post balance sheet events

Subsequent to the reporting period, the Georgian Lari has continued to appreciate against the US Dollar and EUR. At 18 April 2017, the official exchange rate equalled to 2.3896 Georgian Lari per 1 US Dollar and 2.5418 Georgian Lari per 1 EUR.