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ARDI INSURANCE GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

RSM

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These consolidated financial statements are presented in Georgian Lari ("GEL").

Decimal symbol is dot (".") and digit-grouping symbol is comma (",")

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Ardi Insurance JSC (the "Company") and its subsidiary (together referred to as the "Group") at 31 December 2017 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"). The subsidiary was disposed of in October 2017.

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2017 were approved by management on 11 April 2018.

On behalf of the Management Board:

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

RSM Georgia

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INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT AND SHAREHOLDERS

Opinion

We have audited the accompanying consolidated financial statements of Ardi Insurance JSC (hereinafter the "Company"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the consolidated 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.

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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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 separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

RSM Georgia

11 April 2018
RSM Georgia

Managing Partner: Giorgi Kvinikadze

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Unaudited GEL	2016, reclassified GEL
Gross premiums		31,383,359	28,024,164
Premiums ceded to reinsurers		(3,762,651)	(4,541,408)
Net premiums		**27,620,708**	**23,482,756**
Changes in unearned premium reserves		(1,686,059)	(1,562,383)
Changes in unearned premium reserves ceded to reinsurers		(90,086)	662,385
Net insurance revenue	4	**25,844,563**	**22,582,758**
Interest income	5	476,283	465,254
Commission income	6	316,212	208,327
TOTAL REVENUE		**26,637,058**	**23,256,339**
Insurance benefits and claims paid	7	(20,739,039)	(16,604,603)
Claims ceded to reinsurers	7	2,611,738	1,374,883
Changes in other insurance reserves	17	3,068,210	(4,795,646)
Changes in other insurance reserves ceded to reinsurers	17	(3,086,790)	4,543,819
Net income from subrogation and recoveries	19	1,323,222	5,508,201
Changes in reinsurers' share in subrogation receivable	22	46,001	(3,938,068)
Net benefits and claims		**(16,776,658)**	**(13,911,414)**
Commission expenses	8	(2,917,629)	(2,563,982)
General and administrative expenses	9	(4,991,365)	(4,230,734)
Marketing expenses	10	(762,977)	(753,464)
Impairment and write off expense	11	(493,696)	(1,116,831)
Interest expense	5	(98,474)	(105,710)
Loss on disposal of subsidiary		(27,406)	-
Other income and expenses, net		263,349	77,460
Net foreign exchange gain		59,784	258,734
PROFIT BEFORE TAX		**891,986**	**910,398**
Income tax expense	12	(40,825)	(158,977)
PROFIT FOR THE YEAR		**851,161**	**751,421**
OTHER COMPREHENSIVE INCOME FOR THE YEAR	13	-	**66,410**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**851,161**	**817,831**

Approved for issue and signed on behalf of the Management on 11 April 2018.

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Notes	2017 Unaudited GEL	2016, reclassified GEL	2015, reclassified GEL
ASSETS				
Property, plant and equipment	13	1,603,745	1,627,336	1,673,613
Intangible assets	14	192,307	107,473	18,929
Investment property	15	945,950	1,370,217	1,331,690
Deferred acquisition costs	16	1,299,942	1,107,733	933,665
Reinsurance assets	17	7,460,368	10,637,244	5,431,040
Other assets	18	3,193,896	2,091,807	1,773,855
Insurance receivables	19	24,162,052	20,879,772	15,830,187
Amounts due from credit institutions	20	2,896,788	2,682,026	2,781,533
Cash and cash equivalents	20	1,433,797	2,387,421	1,450,998
TOTAL ASSETS		**43,188,845**	**42,891,029**	**31,225,510**
EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY				
Capital	21	2,600,000	1,600,000	1,600,000
Revaluation surplus		158,907	158,907	92,497
Retained earnings		3,841,798	2,990,637	2,311,373
TOTAL EQUITY		**6,600,705**	**4,749,544**	**4,003,870**
LIABILITIES				
Liabilities from insurance contracts	17	23,891,087	25,273,238	18,915,209
Other insurance liabilities	22	8,928,474	10,257,249	5,941,765
Deferred commission income from reinsurance contracts	23	201,171	182,017	118,589
Borrowings	24	1,272,375	811,270	1,110,595
Trade and other payables	25	1,558,113	921,617	598,364
Deferred income tax liability	12	-	-	131,926
Current income tax liability		736,920	696,094	405,192
TOTAL LIABILITIES		**36,588,140**	**38,141,485**	**27,221,640**
TOTAL EQUITY AND LIABILITIES		**43,188,845**	**42,891,029**	**31,225,510**

Approved for issue and signed on behalf of the Management on 11 April 2018.

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Capital	Revaluation Surplus	Retained Earnings	TOTAL EQUITY
	GEL	GEL	GEL	GEL
At 1 January 2016	**1,600,000**	**92,497**	**2,311,373**	**4,003,870**
Profit for the year	-	-	751,421	751,421
Other comprehensive income for the year	-	66,410	-	66,410
Total comprehensive income for the year	-	66,410	751,421	817,831
Dividends paid	-	-	(72,157)	(72,157)
At 31 December 2016	**1,600,000**	**158,907**	**2,990,637**	**4,749,544**
Issue of ordinary shares	1,000,000	-	-	1,000,000
Total comprehensive income for the year	-	-	851,161	851,161
At 31 December 2017, unaudited	**2,600,000**	**158,907**	**3,841,798**	**6,600,705**

Approved for issue and signed on behalf of the Management on 11 April 2018.

Besik Maternadze
Director

Tamar Kopilashvili
Chief Accountant

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 Unaudited GEL	2016 GEL
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (insurance premium)	26,505,879	24,427,198
Payments to reinsurers	(1,615,282)	(1,844,499)
Net receipts of premiums	**24,890,597**	**22,582,699**
Payments for insurance claims	(19,803,407)	(16,170,943)
Reimbursements from reinsurers and subrogation	2,191,076	2,831,772
Net payments for insurance claims	**(17,612,331)**	**(13,339,171)**
Payments for acquisition costs	(2,392,782)	(2,118,484)
Payments to suppliers and employees	(5,363,227)	(4,367,066)
Net cash flow (used in) / generated from operations	**(477,743)**	**2,757,978**
Interest paid	(103,324)	(136,561)
Taxes paid	(1,563,478)	(1,151,103)
Net cash (used in) / generated by operating activities	**(2,144,545)**	**1,470,314**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed and intangible assets	(12,439)	(230,278)
Proceeds from sale of property, plant and equipment	94,940	-
Loans issued	(1,340,569)	(1,780,231)
Repayment of loans issued	1,146,904	1,506,389
Interest received	216,868	393,909
Disposal of subsidiary	(231)	-
Net cash generated by / (used in) investing activities	**105,473**	**(110,211)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of new borrowings	2,503,082	865,570
Repayment of borrowings	(2,067,853)	(1,294,310)
Proceeds from issue of shares	1,000,000	-
Dividends paid to owners of the parent company	-	(72,157)
Net cash generated by / (used in) financing activities	**1,435,229**	**(500,897)**
CASH AND CASH EQUIVALENTS		
At 1 January	**5,020,501**	**4,143,170**
Net increase in the year	(603,843)	859,206
Effect of exchange rate changes on cash and cash equivalents held	(143,321)	18,125
At 31 December	**4,273,337**	**5,020,501**
COMPRISING		
Cash and cash equivalents	1,433,797	2,387,421
Amounts due from credit institutions	2,896,788	2,682,026
TOTAL PER THE STATEMENT OF FINANCIAL POSITION	**4,330,585**	**5,069,447**
Less accrued interest	(57,248)	(48,946)
TOTAL FOR THE STATEMENT OF CASH FLOWS PURPOSES	**4,273,337**	**5,020,501**

Approved for issue and signed on behalf of the Management on 11 April 2018.

Besik Natenadze
Director

Tamar Kopilashvili
Chief Accountant

NOTES

NOTES
FOR THE YEAR ENDED 31 DECEMBER 2017

1 GENERAL INFORMATION

Ardi Insurance JSC (the Company) is a Joint-Stock Company domiciled in, and registered under the laws of Georgia. The Company operates by head office and seven service centres and provides different insurance services in Georgia (see Note 4).

Until October 2017 the Company owned 100% of Ardi Property Ltd (the Subsidiary) which is focused on buying foreclosed assets after incurring insurance claims. The Company and the Subsidiary are together referred to as the Group.

The shareholders of the Company are:

Armaz Tavadze	50%
Zurab Khizanishvili	30%
Zaza Nishnianidze	20%
	100%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

These consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2017.

The consolidated financial statements comprise a statement of profit or loss, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the statement of profit or loss. Other comprehensive income is recognised in the statement of comprehensive income and comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of profit or loss, as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners of the Group in their capacity as owners are recognised in the statement of changes in equity. The statement of financial position format is in order of liquidity.

Measurement bases
The consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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. When measuring the fair value of an asset or a liability, the Group uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group (working closely with external qualified valuers) using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Application of new and amended standards
There were no new or amended standards having an effect on these consolidated financial statements.

New and amended standards in issue but not yet effective
The Group has not adopted any standards or interpretations in advance of the required implementation dates. The following standards/amendments, which are not yet effective, might have a significant effect on the Groups' financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- Amendments to IFRS 4 titled *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, give all insurers the option to recognise in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 is applied before implementing IFRS 17 ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach').

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

- IFRS 9 *Financial Instruments* (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
    - IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
    - For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
    - For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
    - For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
    - The derecognition provisions are carried over almost unchanged from IAS 39.

- IFRS 17 *Insurance Contracts* (issued in May 2017) - The Standard that replaces IFRS 4, effective for annual periods beginning on or after 1 January 2021 (earlier application permitted only if IFRS 9 and IFRS 15 also applied), requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

(B) INSURANCE REVENUE AND EXPENSES RECOGNITION

Gross premiums

Gross insurance 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 business written in prior accounting periods. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

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 (see part J of this note).

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.

Insurance benefits and claims

Insurance claims include all claims occurring during the year, whether reported or not, claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries (subrogation), and any adjustments to claims outstanding from previous years.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

(C) BASIS OF CONSOLIDATION

The Group's financial statements incorporate the results, cash flows, assets and liabilities of the Company and the Subsidiary until October 2017 when the Company sold its entire holding in the Subsidiary.

A subsidiary is an entity controlled by the Group, ie the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities (power over the investee). Subsidiaries are consolidated from the effective date of acquisition, which is the date on which the Group obtains control of the acquired business, until that control ceases. All intragroup transactions, balances, income and expenses are eliminated in full on consolidation.

(D) PROPERTY, PLANT AND EQUIPMENT

On initial recognition, items of property, plant and equipment are recognised at cost, which includes the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

After initial recognition, items of property, plant and equipment other than buildings are carried at cost less any accumulated depreciation and impairment losses. Buildings are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows:

Buildings	4% straight line
Computers and other technical equipment	20% straight line
Furniture and office equipment	20% straight line
Vehicles	14% straight line
Other	20% straight line
Land is not depreciated	

Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leased assets
Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the Group. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the lease term.

(E) INTANGIBLE ASSETS

On initial recognition, intangible assets acquired separately are measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. The estimated useful life and amortisation method (15% straight line) are revised at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset - measured as the difference between the net disposal proceeds and the carrying amount of the asset - are recognised in profit or loss when the asset is derecognised.

(F) INVESTMENT PROPERTY (INCLUDING FORECLOSED ASSETS)

Investment properties are held to earn rental income and / or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The cost comprises the purchase price and any directly attributable expenditure (eg professional fees for legal services, property transfer taxes).

Subsequently, investment properties are carried at cost less any accumulated depreciation and impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life of 20 years. Land is not depreciated. Useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(G) IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of property, plant and equipment, intangible assets and investment property are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Value in use is the present value of the estimated future cash flows of the asset / unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / unit whose impairment is being measured.

Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(H) DEFERRED ACQUISITION COSTS (DAC)

Those direct and indirect costs incurred during the financial period arising from the acquiring or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums from insurance contract. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, DACs are amortised over the period in which the related revenues are earned. The deferred acquisition costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

DACs are derecognised when the related contracts are either settled or disposed of.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

(I) FINANCIAL INSTRUMENTS

Initial recognition and measurement
The Group recognises a financial asset or a financial liability in the consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition, the Group recognises all financial assets and financial liabilities at fair value. The fair value of a financial asset / liability on initial recognition is normally represented by the transaction price.

Subsequent measurement of financial assets
Subsequent measurement of financial assets depends on their classification on initial recognition. During the reporting period, the Group classified financial assets as loans and receivables - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or collectability.

Typically trade and other receivables, bank balances and cash are classified in this category.

Impairment of financial assets
At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected. Objective evidence of impairment could include significant financial difficulty of the counterparty, breach of contract, probability that the borrower will enter bankruptcy, disappearance of an active market for that financial asset because of financial difficulties, etc.

In addition, for insurance premium receivables (see below) that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

The carrying amount of loans and receivables is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets
Irrespective of the legal form of the transactions, financial assets are derecognised when they pass the "substance over form" based derecognition test prescribed by IAS 39. That test comprises two different types of evaluations which are applied strictly in sequence:

- Evaluation of the transfer of risks and rewards of ownership
- Evaluation of the transfer of control

Whether the assets are recognised / derecognised in full or recognised to the extent of the Group's continuing involvement depends on accurate analysis which is performed on a specific transaction basis.

Subsequent measurement of financial liabilities
Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. During the reporting period, the Group did not classify any financial liabilities as held for trading or designated as at fair value through profit or loss. All the other financial liabilities are carried at amortised cost using the effective interest method.

Typically, trade and other payables and borrowings are classified in this category. Items classified within trade and other payables are not usually remeasured, as the obligation is known with a high degree of certainty and settlement is short-term.

Derecognition of financial liabilities
A financial liability is removed from the Group's statement of financial position only when the liability is discharged, cancelled or expired (ie extinguished). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Insurance receivables
Insurance receivables consist of:

- Insurance premium receivable that is the sum of earned (past due) and unearned premiums receivable;
- Subrogation receivable that is the fair value of recoveries receivable from third parties to reimburse some or all costs of insurance claims.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Reinsurance assets
Reinsurance assets represent the reinsurer's share in liabilities from insurance contracts (see part J of this note).

Cash and cash equivalents and amounts due from credit institutions
Cash and cash equivalents and amounts due from credit institutions comprise cash in hand, on demand and term deposits, and other highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

For the purpose of the statement of cash flows only, cash and cash equivalents include bank overdrafts repayable on demand. Since the characteristics of such banking arrangements are that the bank balance often fluctuates from being positive to overdrawn, they are considered an integral part of the Group's cash management.

Insurance agents' commission payable, included in other insurance liabilities, is amortised over the period in which the related revenues are earned.

(J) LIABILITIES FROM INSURANCE CONTRACTS

Insurance contract liabilities include the outstanding claims provision and the provision for unearned premium. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported (RBNS) or not (IBNR), together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date. IBNR is calculated at the reporting date in accordance with the state regulation: 5% of annual gross premiums for all types of insurance contracts other than medical (health) and 2% of annual gross premiums for medical (health) insurance. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Liability adequacy test
At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

(K) FOREIGN CURRENCY TRANSACTIONS

Foreign currency monetary assets and liabilities are translated into the functional currency of the Group (Georgian Lari, "GEL") using the exchange rates officially published by the National Bank of Georgia at the reporting date:

	GEL / USD	GEL / EUR
Exchange rate as at 31 December 2017	2.59	3.10
Average rate for the year ended 31 December 2017	2.51	2.83
Exchange rate as at 31 December 2016	2.65	2.79
Average rate for the year ended 31 December 2016	2.37	2.62
Exchange rate as at 31 December 2015	2.39	2.62

Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

(L) INCOME TAXES

Tax currently payable is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

pattern that they are taxable or deductible differs between tax law and their accounting treatment.

Using the statement of financial position liability method, deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities in the consolidated statement of financial position and the corresponding tax base.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that the Group considers that it is probable (ie more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities, they relate to the same tax authority and the Group's intention is to settle the amounts on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

(M) PROVISIONS

Where, at the reporting date, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will settle the obligation, a provision is made in the statement of financial position. Provisions are made using best estimates of the amount required to settle the obligation and are discounted to present values using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Changes in estimates are reflected in profit or loss in the period they arise.

(N) EQUITY

Equity instruments are contracts that give a residual interest in the net assets of the Group. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent those proceeds exceed the par value of the shares issued they are credited to a share premium account.

Dividends are recognised as liabilities when they are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the Shareholders' Annual General Meeting. Interim dividends are recognised when paid.

3 IMPACT OF RECLASSIFICATION OF COMPARABLE INFORMATION

The Group has corrected the error in accounting of income from subrogation and recoveries, subrogation receivables and reinsurers' share in subrogation receivable. Previously allowance for impairment of subrogation receivables was credited to reinsurers' share in subrogation receivable. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group has applied the change retrospectively. Resulting reclassifications are provided below.

Statement of Comprehensive Income (extract)	As previously reported for the year ended 31 December 2016	Reclassification	Reclassified for the year ended 31 December 2016
	GEL	GEL	GEL
Insurance benefits and claims paid	(16,604,603)	-	(16,604,603)
Claims ceded to reinsurers	1,374,883	-	1,374,883
Changes in other insurance reserves	(4,795,646)	-	(4,795,646)
Changes in other insurance reserves ceded to reinsurers	4,543,819	-	4,543,819
Net income from subrogation and recoveries	1,570,133	3,938,068	5,508,201
Changes in reinsurers' share in subrogation receivable	-	(3,938,068)	(3,938,068)
Net benefits and claims	**(13,911,414)**	-	**(13,911,414)**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Statement of Financial Position (extract)	As previously reported as at 31 December 2016	Reclassification	Reclassified as at 31 December 2016
Insurance receivables	26,575,072	(5,695,300)	20,879,772
Other assets	22,011,257	-	22,011,257
TOTAL ASSETS	**48,586,329**	**(5,695,300)**	**42,891,029**
TOTAL EQUITY	**4,749,544**	**-**	**4,749,544**
Other insurance liabilities	15,952,549	(5,695,300)	10,257,249
Other liabilities	27,884,236	-	27,884,236
TOTAL LIABILITIES	**43,836,785**	**(5,695,300)**	**38,141,485**
TOTAL EQUITY AND LIABILITIES	**48,586,329**	**(5,695,300)**	**42,891,029**

Statement of Financial Position (extract)	As previously reported as at 31 December 2015	Reclassification	Reclassified as at 31 December 2015
Insurance receivables	22,566,987	(6,736,800)	15,830,187
Other assets	15,395,323	-	15,395,323
TOTAL ASSETS	**37,962,310**	**(6,736,800)**	**31,225,510**
TOTAL EQUITY	**4,003,870**	**-**	**4,003,870**
Other insurance liabilities	12,678,565	(6,736,800)	5,941,765
Other liabilities	21,279,875	-	21,279,875
TOTAL LIABILITIES	**33,958,440**	**(6,736,800)**	**27,221,640**
TOTAL EQUITY AND LIABILITIES	**37,962,310**	**(6,736,800)**	**31,225,510**

4 NET INSURANCE REVENUE

	2017			2016		
	Gross premiums	Premiums ceded to reinsurers	Net premiums	Gross premiums	Premiums ceded to reinsurers	Net premiums
Medical (Health)	19,685,133	-	19,685,133	16,009,559	-	16,009,559
Property	3,006,613	(654,477)	2,352,136	4,022,167	(1,730,489)	2,291,678
Road Transport Means	2,453,688	-	2,453,688	2,510,426	-	2,510,426
Suretyships	2,030,888	(1,170,764)	860,124	1,881,013	(988,200)	892,813
Third Party Liability	1,092,124	(231,040)	861,084	922,367	(279,163)	643,204
Aviation Third Party Liability	1,045,480	(991,347)	54,133	1,138,249	(1,053,639)	84,610
Aviation Transport Means (Hull)	486,407	(474,277)	12,130	288,270	(266,965)	21,305
Motor Third Party Liability	379,150	-	379,150	420,319	-	420,319
Personal Accident	362,683	(55,489)	307,194	161,220	(63,573)	97,647
Life	260,302	(179,138)	81,164	81,649	(52,374)	29,275
Cargo	247,294	(4,602)	242,692	276,097	(105,542)	170,555
Travel	236,115	-	236,115	221,268	-	221,268
Financial loss Risks	97,482	(1,517)	95,965	91,560	(1,463)	90,097
	31,383,359	**(3,762,651)**	**27,620,708**	**28,024,164**	**(4,541,408)**	**23,482,756**
Changes in unearned premium reserves	(1,686,059)	(90,086)	(1,776,145)	(1,562,383)	662,385	(899,998)
Net insurance revenue	**29,697,300**	**(3,852,737)**	**25,844,563**	**26,461,781**	**(3,879,023)**	**22,582,758**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Gross premiums include premiums of GEL 2,050,031 (2016: GEL 2,784,024) from fronting insurance contracts (contracts where 100% of insurance risk is reinsured) and premiums ceded to reinsurers include such premiums of GEL 1,873,683 (2016: 2,511,668).

5 INTEREST INCOME AND EXPENSE

The following table analyses the total amounts of interest income and expense classified by underlying category of financial assets and liabilities.

	2017	2016
	GEL	GEL
Interest income from loans issued	322,446	260,237
Interest income from deposits	153,837	205,017
INTEREST INCOME	**476,283**	**465,254**
Interest expense on bank loans	(85,647)	(97,878)
Interest expense on other loans	(12,827)	(7,832)
INTEREST EXPENSE	**(98,474)**	**(105,710)**

6 COMMISSION INCOME

	2017	2016
	GEL	GEL
Gross commission income	335,366	271,755
Commission income deferred	(108,643)	(129,183)
Amortization of prior period income deferred	89,489	65,755
COMMISSION INCOME	**316,212**	**208,327**

Movement of deferred commission income is provided in Note 23.

7 INSURANCE BENEFITS AND CLAIMS PAID

	2017			2016		
	Paid	Ceded to reinsurers	Net payment	Paid	Ceded to reinsurers	Net payment
Medical (Health)	14,458,558	-	14,458,558	12,371,824	-	12,371,824
Suretyships	3,341,787	(2,129,286)	1,212,501	2,154,495	(1,374,883)	779,612
Road Transport Means	1,654,129	-	1,654,129	1,291,115	-	1,291,115
Property	948,898	(482,452)	466,446	457,569	-	457,569
Motor Third Party Liability	195,410	-	195,410	229,531	-	229,531
Financial loss Risks	66,525	-	66,525	46,773	-	46,773
Travel	41,383	-	41,383	12,054	-	12,054
Third Party Liability	11,543	-	11,543	20,229	-	20,229
Personal Accident	1,353	-	1,353	-	-	-
Cargo	-	-	-	5,784	-	5,784
Other Expenses related to claims handling	19,453	-	19,453	15,229	-	15,229
	20,739,039	**(2,611,738)**	**18,127,301**	**16,604,603**	**(1,374,883)**	**15,229,720**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

8 COMMISSION EXPENSES

Commission expenses are the costs of acquiring or renewing of insurance contracts:

	2017	2016
	GEL	GEL
Acquisition costs	3,109,838	2,738,050
Acquisition costs deferred	(1,217,656)	(1,023,974)
Amortization of deferred acquisition cost	1,025,447	849,906
COMMISSION EXPENSES	**2,917,629**	**2,563,982**

The Group pays commission to insurance agents after receiving insurance premium, generally the commission is 10% of the premium. Movement of deferred acquisition costs is provided in Note 16.

9 GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
	GEL	GEL
Salaries	2,934,441	2,951,972
Rent	356,919	299,845
Depreciation and Amortisation	222,024	203,436
Public register and notary service fees	163,259	70,648
Consultation expenses	150,675	89,346
Stationery	150,652	111,795
Communication expenses	126,748	79,153
Business trip	88,631	54,894
Representative expenses	74,234	82,431
Utilities	53,939	46,001
Office expenses	55,764	14,610
Bank commissions	48,535	32,616
Other	565,544	193,987
G&A EXPENSES	**4,991,365**	**4,230,734**

10 MARKETING EXPENSES

	2017	2016
	GEL	GEL
Salary of sales staff	581,578	574,338
Advertising expenses	173,134	168,411
Other sales expenses	8,265	10,715
MARKETING EXPENSES	**762,977**	**753,464**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

11 IMPAIRMENT AND WRITE OFF EXPENSE

	2017 GEL	2016 GEL
Impairment of insurance premium receivable	983,716	943,774
Impairment of loans issued (other assets)	(489,765)	104,346
Write off of other assets	(255)	68,711
IMPAIRMENT AND WRITE OFF EXPENSE	**493,696**	**1,116,831**

Movement of impairment of insurance premium receivable is provided in Note 19 and movement of impairment of loans issued is in Note 18.

12 INCOME TAX EXPENSE

	2017 GEL	2016 GEL
Current income tax expense	40,825	290,903
Write-off due to the change of tax law	-	(131,926)
INCOME TAX EXPENSE	**40,825**	**158,977**

The following table illustrates the reconciliation of tax expense.

	2017 GEL	2016 GEL
Profit before income tax	891,986	910,398
Corporation tax charge thereon at 15%	**133,798**	**136,560**
Non-deductible expenses	(92,973)	154,343
Write-off due to the change of tax law	-	(131,926)
INCOME TAX EXPENSE FOR THE YEAR	**40,825**	**158,977**
EFFECTIVE TAX RATE	5%	17%

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. For insurance companies the law will be effective for tax periods starting after 1 January 2019. As a result, starting from this date, the Company's taxable profit will be the dividends paid out (if any) and there will be no temporary differences. As for the temporary differences realisable during the reporting period, they were immaterial and the Group has not recognized deferred taxes as at 31 December 2017 and 2016.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Computers and other technical equipment	Furniture and office equipment	Vehicles	Leasehold imp. and other	Total
	GEL	GEL	GEL	GEL	GEL	GEL
COST						
AT 1 JANUARY 2016	**1,628,697**	**238,202**	**167,625**	**85,136**	**86,301**	**2,205,961**
Additions	-	26,715	22,241	15,000	7,975	71,931
Revaluation	66,410	-	-	-	-	66,410
Transfer*	(285,107)	-	-	-	-	(285,107)
Disposals	-	-	-	(7,935)	-	(7,935)
AT 31 DECEMBER 2016	**1,410,000**	**264,917**	**189,866**	**92,201**	**94,276**	**2,051,260**
Additions	-	66,910	33,838	-	52,817	153,565
AT 31 DECEMBER 2017	**1,410,000**	**331,827**	**223,704**	**92,201**	**147,093**	**2,204,825**
DEPRECIATION						
AT 1 JANUARY 2016	**285,107**	**113,290**	**75,297**	**24,837**	**33,817**	**532,348**
Depreciation for the period	60,000	46,089	31,644	12,468	27,049	177,250
Transfer*	(285,107)	-	-	-	-	(285,107)
Depreciation of disposals	-	-	-	(567)	-	(567)
AT 31 DECEMBER 2016	**60,000**	**159,379**	**106,941**	**36,738**	**60,866**	**423,924**
Depreciation for the period	60,000	51,577	32,400	14,673	18,506	177,156
AT 31 DECEMBER 2017	**120,000**	**210,956**	**139,341**	**51,411**	**79,372**	**601,080**
NET CARRYING AMOUNT						
At 1 January 2016	1,343,590	124,912	92,328	60,299	52,484	1,673,613
At 31 December 2016	1,350,000	105,538	82,925	55,463	33,410	1,627,336
AT 31 DECEMBER 2017	**1,290,000**	**120,871**	**84,363**	**40,790**	**67,721**	**1,603,745**

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

The building (556 sq.m. office space on 3 Vazha-Pshavela ave., Tbilisi) was revalued on 1 August 2014 by independent valuator Valuation Company ACD Ltd. The revaluation was recognised in 2016 without restating prior years because the adjustment is not material.

If the building was stated on a historical cost basis, the amounts would have been as follows:

	2017	2016
	GEL	GEL
Cost	1,519,877	1,519,877
Accumulated depreciation	(367,971)	(307,176)
Net book value	**1,151,906**	**1,212,701**

The building is pledged as security for the loan from Procredit Bank JSC (Note 24).

Depreciation has been charged entirely to general and administrative expenses.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

14 INTANGIBLE ASSETS

	Licenses	Computer software	Other	Total
	GEL	GEL	GEL	GEL
COST				
AT 1 JANUARY 2016	**1,000**	**64,072**	**1,900**	**66,972**
Additions	30,019	74,536	-	104,555
AT 31 DECEMBER 2016	**31,019**	**138,608**	**1,900**	**171,527**
Additions	-	119,528	-	119,528
AT 31 DECEMBER 2017	**31,019**	**258,136**	**1,900**	**291,055**
AMORTISATION				
AT 1 JANUARY 2016	**736**	**47,164**	**142**	**48,043**
Amortisation for the period	2,401	13,325	285	16,011
AT 31 DECEMBER 2016	**3,137**	**60,489**	**427**	**64,054**
Amortisation for the period	4,653	29,756	285	34,694
AT 31 DECEMBER 2017	**7,790**	**90,245**	**713**	**98,748**
NET CARRYING AMOUNT				
At 1 January 2016	264	16,908	1,758	18,929
At 31 December 2016	27,882	78,119	1,472	107,473
AT 31 DECEMBER 2017	**23,229**	**167,891**	**1,187**	**192,307**

Amortisation has been charged entirely to general and administrative expenses.

15 INVESTMENT PROPERTY

	2017	2016
	GEL	GEL
Land plots	602,300	934,465
Apartments under construction	160,500	242,427
Apartment	203,500	203,500
Accumulated depreciation of apartment	(20,350)	(10,175)
INVESTMENT PROPERTY	**945,950**	**1,370,217**

The land plots remaining at 31 December 2017 are located in Tetritskaro (5 ha) and Tbilisi (0.4 ha).

The property of GEL 287,000 is temporarily sequestered by the court.

The fair value of the investment property is not reliably measurable on a continuing basis. The market for comparable properties is inactive and alternative reliable measurements of fair value are not available.

Depreciation has been charged entirely to general and administrative expenses.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

16 DEFERRED ACQUISITION COSTS (DAC)

	2017 GEL	2016 GEL
At 1 January	**1,107,733**	**933,665**
Expenses deferred	3,407,107	2,802,591
Cancellation	(297,269)	(64,541)
Amortization (Note 8)	(2,917,629)	(2,563,982)
At 31 December	**1,299,942**	**1,107,733**

17 LIABILITIES FROM INSURANCE CONTRACTS AND REINSURANCE ASSETS

	2017 GEL	2016 GEL
Unearned premium provision (UPR)	13,609,582	11,923,523
Provisions for claims reported by policyholders (RBNS)	9,302,891	12,428,794
Provisions for claims incurred but not reported (IBNR)	978,614	920,921
LIABILITIES FROM INSURANCE CONTRACTS	**23,891,087**	**25,273,238**

Reinsurers' share in the liabilities from insurance contracts were as follows:

	2017 GEL	2016 GEL
Reinsurers' share in unearned premium provision (UPR)	1,554,168	1,644,254
Reinsurers' share in provisions for claims reported by policyholders (RBNS)	5,718,067	8,765,920
Reinsurers' share in provisions for claims incurred but not reported (IBNR)	188,133	227,070
REINSURANCE ASSETS	**7,460,368**	**10,637,244**

Liabilities from insurance contracts net of reinsurance were as follows:

	2017 GEL	2016 GEL
Unearned premium provision (UPR)	12,055,414	10,279,269
Provisions for claims reported by policyholders (RBNS)	3,584,824	3,662,874
Provisions for claims incurred but not reported (IBNR)	790,481	693,851
NET LIABILITIES FROM INSURANCE CONTRACTS	**16,430,719**	**14,635,994**

Analysis of movements in liabilities from insurance contracts and reinsurance assets were as follows.

(a) Provision for unearned premium (UPR):

	2017 GEL	2016 GEL
Balance at 1 January	**11,923,523**	**10,361,140**
Gross written premium	31,383,359	28,024,164
Gross earned premium	(29,697,300)	(26,461,781)
Balance at 31 December	**13,609,582**	**11,923,523**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Reinsurer's share in UPR:

	2017 GEL	2016 GEL
Balance at 1 January	**1,644,254**	**981,869**
Reinsurer's share of gross written premium	3,762,651	4,541,408
Gross reinsurer's earned premium	(3,852,737)	(3,879,023)
Balance at 31 December	**1,554,168**	**1,644,254**

UPR, net:

	2017 GEL	2016 GEL
Balance at 1 January	**10,279,269**	**9,379,271**
Net written premium	27,620,708	23,482,756
Net earned premium	(25,844,563)	(22,582,758)
Balance at 31 December	**12,055,414**	**10,279,269**

(b) Provisions for claims (RBNS and IBNR):

	2017 GEL	2016 GEL
Balance of incurred but not reported at 1 January	**920,921**	**717,343**
Balance of reported but not settled claims at 1 January	**12,428,794**	**7,836,726**
Total provisions for claims at 1 January	**13,349,715**	**8,554,069**
Payments in respect of prior year claims	(4,476,795)	(2,387,029)
Change in estimates in respect of prior year claims	(533,377)	(1,416,141)
Expected cost of current year claims	18,184,754	22,801,161
Payments in respect of current year claims	(16,242,792)	(14,202,345)
Total provisions for claims at 31 December	**10,281,505**	**13,349,715**
Balance of incurred but not reported at 31 December	**978,614**	**920,921**
Balance of reported but not settled claims at 31 December	**9,302,891**	**12,428,794**

Reinsurer's share in RBNS and IBNR:

	2017 GEL	2016 GEL
Balance of incurred but not reported at 1 January	**227,070**	**129,801**
Balance of reported but not settled claims at 1 January	**8,765,920**	**4,319,370**
Total provisions for claims at 1 January	**8,992,990**	**4,449,171**
Payments in respect of prior year claims	(1,866,040)	(376,766)
Change in estimates in respect of prior year claims	(864,689)	235,652
Expected cost of current year claims	389,637	5,683,050
Payments in respect of current year claims	(745,698)	(998,117)
Total provisions for claims at 31 December	**5,906,200**	**8,992,990**
Balance of incurred but not reported at 31 December	**188,133**	**227,070**
Balance of reported but not settled claims at 31 December	**5,718,067**	**8,765,920**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

RBNS and IBNR, net:

	2017 GEL	2016 GEL
Balance of incurred but not reported at 1 January	693,851	587,542
Balance of reported but not settled claims at 1 January	3,662,874	3,517,356
Total provisions for claims at 1 January	**4,356,725**	**4,104,898**
Payments in respect of prior year claims	(2,610,755)	(2,010,263)
Change in estimates in respect of prior year claims	331,312	(1,651,793)
Expected cost of current year claims	17,795,117	17,118,111
Payments in respect of current year claims	(15,497,094)	(13,204,228)
Total provisions for claims at 31 December	**4,375,305**	**4,356,725**
Balance of incurred but not reported at 31 December	790,481	693,851
Balance of reported but not settled claims at 31 December	3,584,824	3,662,874

18 OTHER ASSETS

	2017 GEL	2016 GEL
Loans issued	3,214,506	2,327,485
Allowance for impairment losses	(211,818)	(701,583)
Net loans issued	3,002,688	1,625,902
Advances paid	17,220	205,252
Inventory	104,914	100,476
Prepayments to employees	42,474	26,000
Other receivables	26,600	134,177
OTHER ASSETS	**3,193,896**	**2,091,807**

There is no material difference between the fair value of financial assets included in other assets and their carrying amount.

Allowance for impairment losses is decreased as a result of collateralizing the loans in 2017:

	2017 GEL	2016 GEL
Collateralized short-term loans	2,573,211	452,071
Other short-term loans	563,271	1,073,935
Long-term loans	78,024	801,479
LOANS ISSUED	**3,214,506**	**2,327,485**

The table below analyses changes in the allowance for impairment of loans issued in the period.

	2017 GEL	2016 GEL
At 1 January	**701,583**	**597,237**
Charge for the year	(489,765)	104,346
At 31 December	**211,818**	**701,583**

Provisions, write-offs and utilisation of the allowance for impairment losses are presented in the consolidated statement of profit or loss within impairment and write off expense (Note 11).

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

19 INSURANCE RECEIVABLES

	2017 GEL	2016, reclassified GEL
Insurance premium receivable	19,637,261	15,142,122
Allowance for impairment losses	(3,590,191)	(2,166,879)
Net insurance premium receivable	16,047,070	12,975,243
Subrogation receivable net of impairment losses	7,675,386	7,904,529
INSURANCE RECEIVABLES	**23,722,456**	**20,879,772**

There is no material difference between the fair value of financial assets included in insurance receivables and their carrying amount.

Analysis of credit risk is provided in Note 26.

The table below analyses changes in the allowance for impairment losses in the period.

	2017 GEL	2016 GEL
At 1 January	**2,166,879**	**1,223,105**
Charge for the year	1,423,312	943,774
At 31 December	**3,590,191**	**2,166,879**

Provisions, write-offs and utilisation of the allowance for impairment losses are presented in the consolidated statement of profit or loss within impairment and write off expense (Note 11).

Movement of net receivable from subrogation and recoveries were as follows:

	2017 GEL	2016, reclassified GEL
AT 1 JANUARY	**7,904,529**	**4,060,640**
Net income from subrogation and recoveries	1,323,222	5,508,201
Compensations received	(1,552,365)	(1,664,312)
AT 31 DECEMBER	**7,675,386**	**7,904,529**

20 CASH AND CASH EQUIVALENTS AND AMOUNTS DUE FROM CREDIT INSTITUTIONS

	2017 GEL	2016 GEL
Cash on current accounts with banks	1,344,017	2,257,407
Cash on hand	89,780	130,014
CASH AND CASH EQUIVALENTS	**1,433,797**	**2,387,421**
Short term deposits	2,839,540	2,633,080
Accrued interest	57,248	48,946
AMOUNTS DUE FROM CREDIT INSTITUTIONS	**2,896,788**	**2,682,026**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

There is no material difference between the fair value and the carrying amount of cash and cash equivalents and amounts due from credit institutions.

Short term deposits include restricted cash placed on bank accounts to conform to the requirement of regulatory legislation (Note 21). The amount of mandatory reserves is depended on the amount of estimated outstanding claims (insurance liabilities). Maturity of the deposits is not exceeding 1 year.

21 EQUITY CAPITAL

Minimum amount of equity capital, defined by the regulatory legislation, is GEL 2,200,000 that should be fully paid and kept as bank deposit (Note 20).

From the Company's authorized share capital of GEL 5,000,000 (500,000 ordinary shares with a nominal value of GEL 10 each), GEL 2,600,000 is fully paid. Shareholders are presented in Note 1.

22 OTHER INSURANCE LIABILITIES

	2017 GEL	2016, reclassified GEL
Reinsurance premium payable	688,829	1,819,562
Advances received (deposits to secure suretyships)	15,839	14,010
Reinsurers' share in subrogation receivable	6,462,374	6,508,375
Insurance agents' commission payable	1,761,432	1,915,302
OTHER INSURANCE LIABILITIES	**8,928,474**	**10,257,249**

23 DEFERRED COMMISSION INCOME FROM REINSURANCE CONTRACTS

	2017 GEL	2016 GEL
AT 1 JANUARY	**182,017**	**118,589**
Gross commission income	335,366	271,755
Amortization (Note 6)	(316,212)	(208,327)
AT 31 DECEMBER	**201,171**	**182,017**

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

24 BORROWINGS

borrowing as at 31 December 2017:

	Starting Date	Maturity Date	Interest Rate	Currency	Amount
LTD "Ardi Capital"	9/28/2017	9/28/2019	20.00%	GEL	205,980
LTD "Samsheneblo Investiciebi"	12/26/2017	12/26/2018	20.00%	GEL	70,192
JSC "Procredit Bank"	7/14/2016	1/14/2019	12.75%	GEL	306,298
JSC "Procredit Bank"	5/17/2016	5/17/2020	8.50%	USD	168,731
JSC "Procredit Bank"	6/15/2017	6/15/2018	8.50%	USD	403,230
JSC "Procredit Bank"	6/15/2017	6/15/2018	8.50%	USD	117,943
Total Borrowing					**1,272,375**
Loan principal					1,270,787
Interest payable					1,588
Total Borrowing					**1,272,375**

borrowing as at 31 December 2016:

	Starting Date	Maturity Date	Interest Rate	Currency	Amount
JSC "Procredit Bank"	7/14/2016	1/14/2019	12.75%	GEL	559,830
JSC "Procredit Bank"	5/17/2016	5/17/2020	8.50%	USD	231,530
LTD "MG Capital"	9/30/2016	9/30/2017	12%	GEL	19,910
Total Borrowing					**811,270**
Loan principal					3,329
Interest payable					807,941
Total Borrowing					**811,270**

There is no material difference between the carrying amount and the fair value of the Group's borrowings.

Additional information on borrowings is disclosed in Note 26 (liquidity and currency risks).

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

25 TRADE AND OTHER PAYABLES

	2017 GEL	2016 GEL
Accounts payable	590,734	384,342
Taxes payable	399,086	537,275
Accruals for employee compensation	465,564	-
Other payables	102,729	-
TRADE AND OTHER PAYABLES	**1,558,113**	**921,617**

The carrying amount of trade and other payables is considered to be in line with their fair value at the reporting date.

26 INFORMATION ON INSURANCE AND FINANCIAL RISKS

(A) 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 Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims.

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

The Group principally issues the following types of general insurance contracts: Property, Marine Transport Means (Hull), Cargo, Third Party Liability, 'Marine Third Party Liability, Surety ships, Travel, Road Transport Means, Personal Accident, Motor Third Party Liability, Financial Risks, Medical (Health). Risks under these policies usually cover twelve month 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 of the risk insured by the Group, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

Insurance risk management
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 Group. The Group further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group. The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

Despite the fact that the Group currently does not use direct analysis in creating insurance claims provision and creates insurance provision according to Georgian legislation, which precisely defines what type of reserve should be made and in what quantity, claims provision is adequate to generated claims.

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 Group takes all reasonable steps to ensure that it has

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

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 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 Group, where information about the claim event is available.

At the end of each reporting period the Group assess whether its recognized insurance liabilities are adequate: the Group 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.

(B) FINANCIAL RISKS

In performing its operating, investing and financing activities, the Group is exposed to the following financial risks:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss to the Group.
- Liquidity risk: the risk that the Group may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. Basically, the Group is exposed only to currency risk from market risk components.

In order to effectively manage those risks, the major guidelines used by the Group are the following:

- Minimise interest rate, currency and price risks for all kinds of transactions
- Maximise the use of "natural hedge" favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency. The same strategy is pursued with regard to interest rate risk
- All financial risk management activities are carried out on a prudent and consistent basis and following the best market practices.

The following table summarises the carrying amount of financial assets and financial liabilities recorded by category.

	2017	2016
FINANCIAL ASSETS	GEL	GEL
Cash and cash equivalents	1,433,797	2,387,421
Amounts due from credit institutions	2,896,788	2,682,026
Net insurance premium receivable (Note 19)	16,486,666	12,975,243
Net subrogation receivable (Notes 19 and 22)	1,213,012	1,396,154
Net loans issued (Note 18)	3,002,688	1,625,902
BALANCE AT 31 DECEMBER	**25,032,951**	**21,066,746**
	2017	2016
FINANCIAL LIABILITIES	GEL	GEL
Net insurance claims (net RBNS and IBNR, Note 17)	4,375,305	4,356,725
Other insurance liabilities (Note 22)	2,466,100	3,748,874
Borrowings	1,272,375	811,270
Trade and other payables	1,558,113	921,617
Current income tax	736,920	696,094
BALANCE AT 31 DECEMBER	**10,408,813**	**10,534,580**

Credit risk

The Group controls its exposure to credit risk by dealing only with creditworthy counterparties. There are no significant concentrations of credit risk.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

The maximum credit risk to which the Group is exposed is summarised in the following table.

	2017 GEL	2016 GEL
Due from banks (Note 20)	4,240,805	4,939,433
Net past due insurance premium receivable (Note 19)	6,880,823	3,640,098
Net subrogation receivable (Notes 19 and 22)	1,213,012	1,396,154
Net loans issued (Note 18)	3,002,688	1,625,902
BALANCE AT 31 DECEMBER	**15,337,328**	**11,601,587**

Aging analysis of past due insurance premium receivable:

	2017 GEL	2016 GEL
Less than 31	1,244,190	786,751
Between 31-90	1,131,840	772,809
Between 91-180	1,084,065	534,846
Between 181-365	1,427,738	502,162
More than 365	5,143,585	3,210,409
Allowance for impairment losses	(3,150,595)	(2,166,879)
BALANCE AT 31 DECEMBER	**6,880,823**	**3,640,098**

Liquidity risk - Financial liabilities' maturity analysis

The Group manages liquidity risk on the basis of expected maturity dates.

The following tables analyse financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

	Less than 1 year GEL	1 year to 5 year GEL	Over 5 years GEL	Total GEL
Net insurance claims (net RBNS and IBNR, Note 17)	4,375,305	-	-	4,375,305
Other insurance liabilities (Note 22)	2,466,100	-	-	2,466,100
Borrowings	797,564	474,811	-	1,272,375
Trade and other payables	1,558,113	-	-	1,558,113
Current income tax liability	736,920	-	-	736,920
BALANCE AT 31 DECEMBER 2017	**9,661,236**	**747,577**	**-**	**10,408,813**
Net insurance claims (net RBNS and IBNR, Note 17)	4,356,725	-	-	4,356,725
Other insurance liabilities (Note 22)	3,748,874	-	-	3,748,874
Borrowings	334,613	476,657	-	811,270
Trade and other payables	921,617	-	-	921,617
Current income tax	696,094	-	-	696,094
BALANCE AT 31 DECEMBER 2016	**10,057,923**	**476,657**	**-**	**10,534,580**

At present, the Group expects to pay all liabilities at their contractual maturity. In order to meet such cash commitments, the Group expects the operating activity to generate sufficient cash inflows.

Guarantee contracts are appropriately secured.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Foreign currency risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The Group does not have any formal procedures on managing currency risk, however, management consider themselves to be well informed on the tendencies in the economy and has undertaken steps to minimise its currency risks.

Financial assets by currency
Financial assets as at 31 December are analysed by currency as follows:

	GEL	USD	EUR	Total
	GEL	GEL	GEL	GEL
Cash and cash equivalents	1,419,294	12,412	2,091	1,433,797
Amounts due from credit institutions	1,065,848	1,830,940	-	2,896,788
Past due insurance premium receivable	4,752,560	5,143,869	134,989	10,031,418
BALANCE AT 31 DECEMBER 2017	**7,237,702**	**6,987,221**	**137,080**	**14,362,003**
Cash and cash equivalents	1,262,660	1,111,273	13,488	2,387,421
Amounts due from credit institutions	1,076,586	1,605,440	-	2,682,026
Past due insurance premium receivable	4,249,875	1,477,148	79,954	5,806,977
BALANCE AT 31 DECEMBER 2016	**6,589,121**	**4,193,861**	**93,442**	**10,876,424**

Financial liabilities by currency
The following table analyses the breakdown of liabilities by currency.

	GEL	USD	EUR	Total
	GEL	GEL	GEL	GEL
Borrowings	583,363	689,012	-	1,272,375
BALANCE AT 31 DECEMBER 2017	**583,363**	**689,012**	**-**	**1,272,375**
Borrowings	579,740	231,530	-	811,270
Trade and other payables	888,824	32,793	-	921,617
BALANCE AT 31 DECEMBER 2016	**1,468,564**	**264,323**	**-**	**1,732,887**

Sensitivity analysis
A 10% increase / decrease in the exchange rate of GEL/USD would increase / cut profits by GEL 629,821 (2016: GEL 392,954).

A 10% increase / decrease in the exchange rate of GEL/EUR would increase / cut profits by GEL 13,708 (2016: GEL 9,344).

Capital Management

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

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

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

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

27 RELATED PARTY TRANSACTIONS

Loans issued (Note 18) include loans to the entities controlled by key management in amount of GEL 148,714 (2016: 131,692) and loans to key management in amount of GEL 241,964 (2016: 198,049).

Borrowings (Note 24) include loan from Ardi Capital Ltd in amount of GEL 206,171.

Salaries (Note 9) include the salaries of key management in amount of GEL 1,050,595 (2016: 827,038).

28 EVENTS AFTER THE REPORTING PERIOD

These consolidated financial statements were authorised for issue by the management on 11 April 2018.

According to the decision of Tbilisi City Court the insurance company should pay compensation to the plaintiffs – Microsoft Corporation, due to copyright infringement amounted USD 217,076.

In response to the decision of Tbilisi City Court the management has appealed the court claiming on April 5, 2018 at Tbilisi court of appeals. Date of the trial is not announced for the reporting date.

29 SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Group 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.

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 Group's most significant accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group 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.

Deferred acquisition costs (DAC)
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 insurance contracts with DAC are amortised over the expected total life of the contract as a constant percentage of estimated gross profit margins arising from these contracts in accordance with the accounting policy.

Useful lives of property, plant and equipment and intangible assets
Property, plant and 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.

Income tax
The Group 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 Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities.

NOTES (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

Impairment of insurance and reinsurance receivables
The Group estimates impairment of receivables derived from insurance and reinsurance contracts. Factors that the Group considers whether a financial asset is impaired is its overdue status or bad credit rating of a debtor. 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 as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.