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Accountants &
business advisers

INSURANCE COMPANY IC GROUP LLC

Consolidated Financial Statements as at 31 December, 2013

with

Independent Auditors' Report

Insurance Company IC Group
Consolidated Financial Statements as at
31 December, 2013

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Insurance Company IC Group
Financial Statements as at
31 December, 2013
Prepared under IFRS

Statement of management's responsibilities

Management of Insurance Company IC Group is responsible for accompanying financial statements of Insurance Company IC Group.

This responsibility includes:

- preparation of financial statements in accordance with International Financial Reporting Standards;
- selection of suitable accounting policies and their consistent application;
- making judgments and estimates which are reasonable and prudent;
- preparation of the financial statements on the going concern basis, unless circumstances make this inappropriate.

Management is also responsible for:

- creation, implementation and maintaining effective internal control system;
- keeping proper accounting records in compliance with local regulations;
- {®á"@Y@o them to safeguard the assets of the Company; and
- prevention and detection of fraud and other irregularities.

The financial statements for the year ended 31 December, 2013 were approved by the management and signed on its behalf:

Tengiz Mezurnishvili

General Director
Insurance Company IC Group

Levan Kakulia

Chief Financial Officer
Insurance Company IC Group

Date: January 12, 2015

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Amounts expressed in thousands of GEL unless otherwise stated

1 GENERAL INFORMATION

Insurance Company IC Group LLC (the „Company") was incorporated on 10 November 2005 based on the decision of Vake District Court of Tbilisi, under the laws of Georgia. On 5 May 2009 Insurance Company IC Group LLC acquired 100% of JSC Peoples' Insurance. The latter was merged with Insurance Company IC Group LLC on 15 September 2009.

The Company possesses two types of insurance licenses issued by the Insurance Bureau and Supervisory Board of Georgia for life and non-life insurance products. The Company offers life and various non-life insurance services and insurance products relating to property, aviation, liability, personal insurance and others. Besides insurance services, the Company also provides healthcare products and services through its 100% owned subsidiary Medical Park Georgia LLC.

The registered office of the Company is 24 Mosashvili St, Tbilisi, 0162 Georgia.

The owner of 100% of Company's shares is Tengiz Mezurnishvili, General Director of the Company.

The number of employees at the end of 2013 was 117 (2012:212).

2 BASIS OF PREPARATION

General

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Company is required to maintain its records and prepare its consolidated financial statements for regulatory purposes in Georgian Lari in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

These consolidated financial statements value are presented in Georgian Lari (functional and presentation currency) rounded to the nearest thousand (GEL 000), unless otherwise indicated.

The Company presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after reporting date (non-current) is presented in the respective Notes.

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

Amounts expressed in thousands of GEL unless otherwise stated

2 BASIS OF PREPARATION (Continued)

Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries:

	Ownership / voting				
Subsidiary	***2013***	***2012***	***Country***	***Date of incorporation***	***Industry***
AliansMedi + LLC	100%	100%	Georgia	11-Oct-10	Real estate
Medical Park Georgia LLC	100%	100%	Georgia	16-Nov-10	Health care provider
Global Call LLC	100%	100%	Georgia	3-Dec-10	Information and communication
Agaraki LLC	100%	100%	Georgia	25-Oct-11	Real estate
Bolnisi District Hospital LLC	100%	100%	Georgia	23-May-12	Real estate
Bolnisi District Adults Polyclinic LLC	100%	100%	Georgia	23-May-12	Real estate
Diagnostics - 2000 LLC	100%	100%	Georgia	23-May-12	Real estate
Bolnisi District Emergency Service - 03 LLC	100%	100%	Georgia	23-May-12	Real estate

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-Company balances, transactions, income and expenses and profits and losses resulting from intra-Company transaction are eliminated in full.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group has adopted the following amended IFRS during the year:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New and amended standards and interpretations (Continued)

IAS 1 Clarification of the requirement for comparative information (Amendment) - (Continued)

An opening statement of financial position (known as the “third balance sheet”) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendments had no impact on the Group’s financial position or performance.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not offset financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the Group's financial position or performance.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the Group's financial position or performance, as it has no joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. IFRS 12 had no impact on the Group's financial position or performance, as it has no subsidiaries with material noncontrolling interests or unconsolidated structured entities.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures affected the consolidated financial statements for the period.

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards and interpretations that are issued but not yet effective (Continued)

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. Mandatory effective date will not be before 2017, and has been tentatively decided as 2018. Classification of the Group's financial assets and liabilities may be changed as a result of the implementation. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are not expected to be relevant to the Group.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments will not have an impact on the Group, since the Group does not apply hedge accounting.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where it is necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognized in other comprehensive income to profit or loss.

Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Cash and cash equivalents

Cash and cash equivalents comprise cash at Company, current accounts and short-term deposits with an original maturity of three months or less in the consolidated statement of financial position.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognized based upon insurance policy terms and measured at cost.

The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated income statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insurance and reinsurance receivables (Continued)

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

Financial assets

Initial recognition and measurement

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans issued and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets upon initial recognition.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Company’s strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities (including shareholders’ funds), on the same bases, being fair value. The available-for-sale and held-to-maturity categories are used where the relevant liability (including shareholders’ funds) are passively managed and/or carried at amortized cost.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company’s financial assets include cash and short-term deposits, loans issued and other receivable and investments available for sale.

Loans issued and receivables

Loans issued and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value. After initial recognition available-for sale financial assets are re-measured at fair value with gains or losses being recognized as a separate component of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

Determination of fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Derecognition of financial assets

A financial asset (or, when applicable, a part of financial asset or part of a Company of similar financial assets) is derecognised when:

- The right to receive cash flows from the assets have expired

  Or
- The Company retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘path-through’ arrangement;

  And either:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Derecognition of financial assets (Continued)

- The Company has transferred substantially all the risks and rewards of the asset
  Or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

When the Company transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred the control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In this case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the right and obligations that the Company has retained.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognized in the consolidated income statement.

Assets carried at amortized cost

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement.

Insurance contract liabilities

Life insurance contract liabilities

The provision for life insurance contracts is calculated on the basis of the terms of the contract and the insurance period as well as the prudent estimation of incurred losses in the claims reported at the reporting date.

General insurance contract liabilities

General insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The liability is calculated at the reporting date based on empirical data and current assumptions. 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 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. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiry date of each insurance policy. The Company reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims. The differences between the unearned premium reserves, loss provisions and as well as the expected claims are recognised in the consolidated income statement by setting up a provision for premium deficiency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance assets

The Company cedes insurance risk in the normal course of business for all of its businesses except for health insurance. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The reinsurers' share of each unexpired risk provision is recognized on the same basis. Reinsurance assets are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Offsetting

Reinsurance assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the reinsurance asset and settle the reinsurance liability simultaneously. Respective income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Deferred acquisition costs

The commission costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, deferred acquisition costs (DAC) for general insurance and health products are amortised over the period in which the related revenues are earned.

Property and equipment

Property and equipment, including the owner occupied property, is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided straight line basis over the useful lives of the following classes of assets:
- Buildings: 20 years
- Motor vehicles: 5 years
- Medical equipment and machinery: 5 years
- Furniture and fixtures: 5 to 10 years
- Leasehold improvements: 7 years

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the consolidated income statement as an expense.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use of disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognised.

Assets under construction comprised costs directly related to construction of property and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

Leasehold improvements are amortised over the life of the related leased asset. The assets residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Investment properties

Investment properties are measured initially at cost, including transaction cost. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day-to-day servicing of investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to date of the change in use.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory supplies

Inventory supplies are valued at the lower of cost and net realizable value. Cost of inventory supplies is determined on a weighted average basis and includes expenditure incurred in acquiring inventory supplies and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. No provisions for obsolete or slow moving inventory supplies are made**.**

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, minus directly attributable transaction costs.

The Company's financial liabilities include insurance contract liabilities, bank loans, overdrafts and other liabilities.

Interest bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of EIR. The EIR amortisation is included in interest expense in the consolidated income statement.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Insurance payables

Initial recognition and measurement

Insurance payables are recognised when due and are measured on initial recognition at the fair value of consideration received less directly attributable transaction costs.

Derecognition of insurance payables

Insurance payables are derecognised when obligation under the liability is settled, cancelled or expired.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred commission income

The commission income earned during the financial period arising from the reinsurance ceded are deferred and then amortised over the period in which the related reinsurance costs are recognized.

Leases

Finance leases - The Company as lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of specific asset or assets and the arrangement conveys a right to use the asset, even if the right is not explicitly specified in an arrangement. For arrangement entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005, in accordance with the translation requirements of IFRIC 4.

Company as lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in interest expense in the consolidated income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rentals are recognised as an expense in the period when they are incurred**.**

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the country where the Company operates and generates taxable income.

The current income tax expense is calculated in accordance with the regulations of Georgia.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statement. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Georgia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of other operating expenses.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. 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, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with function of intangible asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

- Computer software: 5 years

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is more probable than not.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Governmental grants

Governmental grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. Grants related to income are government grants other than those related to assets.

Presentation of grants related to assets

Government grants related to assets, including non-monetary grants at fair value, are presented in the consolidated statement of financial position by setting up the grant as deferred income.

Deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share capital

Share capital

Share capital is recognized at cost. Share capital contributed in assets other than cash is stated at the fair value of such assets at the date of contribution.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Income and expense recognition

Premium income

Premiums from life insurance contracts are recognized as revenue when payable by the policyholders, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognized. For single premium business this is the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due.

For non-life business premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage.

Estimates of premiums written as at the reporting date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are computed principally on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

Premiums ceded

Premiums payable in respect of reinsurance ceded are recognized in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income and expense recognition (Continued)

Provision for unearned premiums

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the consolidated income statement in the order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Fee and commission income

Insurance contract policyholders are charged for policy administration services, investment management services and for surrenders. The fee is recognized as revenue in the period in which it is received unless these relate to services to be provided in future periods.

Revenue from medical services rendered

Revenues from medical services are recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured on an accrual basis. When services are provided in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Cost of Medical Services Rendered

Cost of medical services rendered represents expenses directly related to the generation of revenue from medical services rendered, including, but not limited to wages and salaries of medical personnel, cost of medicines and other inventory. Cost of medical services is expensed in the period in which the medical service is rendered.

Realized gains and losses recorded in the consolidated income statement

Realized gains and losses on the sale of property and equipment and of available for sale financial assets are calculated as the difference between net sales proceeds and the original or amortized cost. Realized gains and losses are recognized in the consolidated income statement when the sale transaction occurred.

Benefits and claims

Life insurance business claims reflect the cost of all claims incurred during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Benefits and claims (Continued)

General insurance claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as gains less losses from foreign currencies - translation differences, except where it relates to items where gains or losses are recognized directly in equity, the gain or loss is then recognized net of the exchange component in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non‑monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2013 and 2012, were 1.7363 and 1.6567 Georgian Lari to 1 US dollar, respectively.

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Use of estimates, assumptions and judgments

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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:

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)

Estimation uncertainty (Continued)

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under life and general insurance contracts is the Company's most critical 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.

a) Life insurance contracts

For life insurance contracts there is no claims liability at the reporting date since the only life insurance product is an annual insurance contract, which may be renewed, that will pay out a fixed amount to a beneficiary when the insured person dies within that year.

b) General insurance contracts

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.

Allowance for impairment of Insurance Receivables and Reinsurance Assets

The Company regularly reviews its insurance receivables and reinsurance assets to assess impairment. The allowance methodology has been consistently applied.

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment.

The amount of allowance is reduced by an amount of receivables which formally meet the criteria mentioned above, but in relation to which the Company has adequate reasons to believe that the amount of debt will be recovered.

Run-off analyses support this approach. Management judgment is that trends will not change in future and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Irrecoverable amounts and specific credit risks are written off by charging directly against gross premiums. Allowances for impairment based on past experience are necessary in respect of receivables due from policyholders and agents/brokers on direct insurance and in respect of counterparts on reinsurance.

Amounts expressed in thousands of GEL unless otherwise stated

4 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)

Estimation uncertainty (Continued)

Measurement of fair value of investment properties

Fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using the sales comparison method. The estimate is subject to change as new transaction data and market evidence becomes available.

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December comprise:

	IC Group	2013	2012
Cash on hand	172	178	310
Current accounts	1,211	1,319	378
Total	***1,383***	**1,497**	**688**

Cash and cash equivalents of Insurance Company IC Group LLC on standalone basis comprise GEL 1,383. The regulator requirement is to maintain minimum level of cash and cash equivalents at 10% of the insurance contract liabilities subject to reservation as defined by regulatory reserve requirement resolution, which as of reporting date amounts to GEL 4,182.

Current accounts balance as of 31 December comprise:

	IC Group	2013	2012
JSC VTB Bank	399	403	183
JSC KorStandard Bank	68	68	83
JSC Halyk Bank Georgia	10	10	55
JSC TBC Bank	709	709	-
Other banks	26	129	57
Total	***1,212***	**1,319**	**378**

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

Amounts expressed in thousands of GEL unless otherwise stated

6 AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions as of 31 December comprise:

	2013	2012
JSC Halyk Bank Georgia	-	4,105
JSC KorStandard Bank	2,891	3,591
JSC PrivatBank	1,701	2,298
JSC BTA Bank	2,002	2,003
Total	**6,594**	**11,997**

Amounts due from credit institutions are represented by medium-term (12 months – 24 months) placements with Georgian banks and earn annual interest of 6.5% to 14% (2012 – 7.5% to 14%).

Amounts due from credit institutions of GEL 1,389 (2012: GEL 4,105) are used as collateral for the Company's financial liabilities (Note 16).

Amounts due from credit institutions also include GEL 3,711 (2012: GEL 4,044) of restricted deposits to secure insurance contract liabilities in accordance with regulatory requirement of Insurance State Supervision Service of Georgia.

7 INSURANCE AND REINSURANCE RECEIVABLES

Insurance and reinsurance receivables as of 31 December comprise:

	2013	2012
Due from policyholders	23,515	24,661
	23,515	**24,661**
Less - allowance for impairment (Note 29)	(3,056)	(2,723)
Total	**20,459**	**21,938**

The carrying amounts disclosed above reasonably approximate their fair values at year end.

8 LOANS ISSUED AND RECEIVABLES

Loans issued and receivables as of 31 December comprise:

	2013	2012
Loans issued and receivables	7,451	1,670
Less - allowance for impairment (Note 29)	(5,486)	(208)
Total	**1,965**	**1,462**

Amounts expressed in thousands of GEL unless otherwise stated

8 LOANS ISSUED AND RECEIVABLES (Continued)

The loans receivable (principal and interest at amortised cost) comprise:

	2013	2012
Loans issued to related parties	1,442	1,340
Loans issued to individuals	523	11
Loans issued to legal entity	-	111
Total	**1,965**	**1,462**

The loans issued to related parties have an interest rate of 14.%.

The loans issued to individuals have an interest rate from 13% to 16%.

Carrying amounts of loans issued and receivables approximate their fair value as of the reporting date.

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

Insurance contract liabilities and reinsurance assets as of 31 December comprise:

	2013	2012
Insurance contract liabilities		
Unearned premiums provision	20,775	24,267
Provisions for claims reported by policyholders	13,639	24,597
Provisions for claims incurred but not reported (IBNR)	894	2,020
Loss adjustment expenses reserve (LAER)	7	32
Total insurance contract liabilities	**35,315.00**	**50,916**
Reinsurance assets		
Reinsurers’ share in unearned premiums provision	1,620	3,963
Reinsurers’ share in provisions for claims reported by policyholders	12,429	19,976
Reinsurers’ share in provisions for claims incurred but not reported	-	-
Reinsurers’ share in Loss adjustment expenses reserve	-	-
Total reinsurance assets	**14,049**	**23,939**
Insurance contracts liabilities net of reinsurance		
Unearned premiums provision	19,155	20,304
Provisions for claims reported by policyholders	1,210	4,621
Provisions for claims incurred but not reported (IBNR)	894	2,020
Loss adjustment expenses reserve (LAER)	7	32
Total insurance contracts liabilities net of reinsurance	**21,266**	**26,977**

Amounts expressed in thousands of GEL unless otherwise stated

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

At 31 December 2013 provisions for claims reported by policyholders and reinsurers' share in provision includes GEL 11,893 and GEL 11,893 (2012: GEL 19,664 and GEL 19,664) respectively related to the reported loss on Aviation Hull and TPL (Third Party Liability) policy by Georgian Airways. The policy was 100% reinsured under the reinsurance treaty signed with insurance broker Marsh Ltd.

Insurance contract liabilities as of 31 December comprise:

		2013			**2012**		
	Notes	***Insurance contract liabilities***	***Reinsurers' share of insurance contract liabilities***	***Net***	***Insurance contract liabilities***	***Reinsurers' share of insurance contract liabilities***	***Net***
Life insurance	(a)	100	4	96	230	-	230
General insurance	(b)	35,215	14,045	21,170	50,686	23,939	26,747
Total insurance contract		**35,315**	**14,049**	**21,266**	**50,916**	**23,939**	**26,977**

(a) The movement during the year in the life insurance contract liabilities is as follows:

		2013			**2012**		
	Notes	***Insurance contract liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contract liabilities***	***Reinsurers' share of liabilities***	***Net***
At 1 January		**230**	**-**	**230**	**372**	**-**	**372**
Premiums written during the year	21	112	10	**102**	188	-	**188**
Premiums earned during the year		(140)	(6)	**(134)**	(99)	-	**(99)**
Claims incurred during the current accident year		(77)	4	**(81)**	(203)	-	**(203)**
Claims paid during the year	25	(25)	(4)	**(21)**	(28)	-	**(28)**
At 31 December		**100**	**4**	**96**	**230**	**-**	**230**

Amounts expressed in thousands of GEL unless otherwise stated

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

(b) General insurance contract liabilities may be analyzed below. Provision for claims settlement expenses is included in the gross insurance contract liabilities.

		2013			2012		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
Provisions for claims reported by policyholders		13,614	12,429	**1,185**	24,474	19,976	**4,498**
Provisions for claims incurred but not reported		889	-	**889**	2,010	-	**2,010**
Outstanding claims provision	(1)	**14,503**	**12,429**	**2,074.00**	**26,484**	**19,976**	**6,508**
Provision for unearned premiums	(2)	20,705	1,616	**19,089**	24,170	3,963	**20,207**
Provision for loss adjustment expenses		7	-	**7**	32	-	**32**
Total general insurance contracts liabilities		**35,215**	**14,045**	**21,170**	**50,686**	**23,939**	**26,747**

(1) The provision for claims reported by policy holders, claims paid during the year and loss adjusting expenses may be analyzed as follows:

		2013			2012		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
At 1 January		**26,484**	**19,976**	**6,508**	**29,371**	**25,691**	**3,680**
Claims incurred during the current accident year		21,550	1,590	**19,960**	24,478	530	**23,948**
Claims paid during the year	25	(33,507)	(9,137)	**(24,370)**	(27,264)	(6,245)	**(21,019)**
Change in LAER		(24)	-	**(24)**	(101)	-	**(101)**
At 31 December		**14,503**	**12,429**	**2,074**	**26,484**	**19,976**	**6,508**

Amounts expressed in thousands of GEL unless otherwise stated

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

(2) The provision for unearned premiums may be analyzed as follows:

		2013			2012		
	Notes	***Insurance contract liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contract liabilities***	***Reinsurers' share of liabilities***	***Net***
At 1 January		**24,170**	**3,964**	**20,206**	**15,164**	**4,708**	**10,456**
Premiums written during the year	21	42,558	3,160	**39,398**	46,698	6,529	**40,169**
Premiums earned during the year		(46,023)	(5,508)	**(40,515)**	(37,692)	(7,273)	**(30,419)**
At 31 December		**20,706**	**1,616**	**19,090**	**24,170**	**3,964**	**20,206**

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

(a) Life insurance contracts

(1) Terms and conditions

Life insurance contracts offered by the Company only consist of annually renewable term conventional insurance contracts where lump sum benefits are payable on death.

(2) Key assumptions

Premiums for life insurance contracts are based on premiums set by the reinsurance company. These annually renewed insurance contracts only pay a lump sum benefit when the insured person dies within that year. At the reporting date, the pro rata premium for the policy year that is not yet earned, is deferred in the caption Insurance Contract Liabilities.

(b) General insurance contracts

(1) Terms and conditions

The major classes of general insurance written by the Company include cargo, motor, household, property, freight forwarding liability, professional indemnity, financial risk, health and aviation. Risks under these policies usually cover twelve month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

9 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (Continued)

Insurance contract liabilities and reinsurance assets - terms, assumptions and sensitivities (Continued)

(b) General insurance contracts (Continued)

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test refer to Note 3 - Summary of significant accounting policies, Insurance contract liabilities.

Insurance contract liabilities on insurance business written in Georgia significantly depends on fluctuations in currency exchange rates as the insurance values on these contracts are denominated in US dollars (see analysis of currency risk in the Note 30 - Risk Management).

10 INCOME TAX

The corporate income tax benefit comprises:

	2013	2012
Current tax	-	298
Deferred tax credit - origination and reversal of temporary differences	(99)	(824)
Income tax expense (benefit)	**(99)**	**(526)**

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and a turnover based tax, together with others. Laws relating to these taxes have not been in force for significant periods in contrast to more developed market economies.

Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

Amounts expressed in thousands of GEL unless otherwise stated

10 INCOME TAX (Continued)

The Company's operations and financial position will continue to be affected by Georgian political developments, including the application and interpretation of existing and future legislation and tax regulations. Such possible occurrences and their effect on the Company could have a material impact on the Company's operations or its financial position in Georgia.

	2013	**2012**
Current income tax asset	815	815
Deferred income tax asset	1,913	1,815
Total tax assets	**2,728**	**2,630**

11 INVESTMENT PROPERTIES

	2013	**2012**
At 1 January	**2,556**	**1,261**
Additions	-	360
Fair value gains / (loss)	23	935
At 31 December	**2,579**	**2,556**

As at 31 December 2013, investment properties of the Company include land in Mtskheta Region and land and buildings in Bolnisi. As at December 31, 2013 none of these properties were used in the supply of services or for administrative purposes and they were not held for sale in the ordinary course of business, thus they are not classified as owner-occupied property. These assets were held for undetermined future use and thus classified as investment properties in accordance with IAS 40.

The fair value of the Group's investment property as at 31 December 2012 and 2013 was determined based on the valuation report of independent professional valuators of Expert Group Ltd. The valuators hold all relevant professional qualification and have recent experience in the location and category of the investment properties valued. Valuations were conducted in accordance with International Valuation Standards.

As at December 31, 2013 there were certain restrictions related to the Group's investment properties. Properties of four subsidiaries (Bolnisi District Hospital LLC, Bolnisi District Adults Polyclinic LLC, Diagnostics - 2000 LLC and Bolnisi District Emergency Service - 03 LLC) with total carrying amount of GEL 1,166 are pledged to secure the financial liability to JSC Halyk Bank Georgia which has the carrying value of GEL 155 as at December 31, 2013. The properties in Bolnisi were sold on December 31, 2014 (see also note 33).

Amounts expressed in thousands of GEL unless otherwise stated

12 PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

	Land and buildings	Motor vehicles	Medical equipment	Furniture and fixtures	Leasehold improvement	Assets under construction	Total
Gross book value							
1-Jan-13	**10,087**	**286**	**3,810**	**1,653**	**1,206**	**-**	**17,042**
Additions	341	36	153	136	65	35	**766**
Internal transfers	32	-	(8)	8	-	(32)	**-**
Disposals	(1,960)	(5)	(55)	(307)	-	-	**(2,327)**
31-Dec-13	**8,500**	**317**	**3,900**	**1,490**	**1,271**	**3**	**15,481**
Accumulated depreciation							
1-Jan-13	**572**	**128**	**798**	**804**	**481**	**-**	**2,783**
Depreciation charge	428	59	599	380	186	-	**1,652**
Disposals	(143)	(5)	(48)	(147)	-	-	**(343)**
31-Dec-13	**857**	**182**	**1,349**	**1,037**	**667**	**-**	**4,092**
Net book value							
1-Jan-13	**9,515**	**158**	**3,012**	**849**	**725**	**-**	**14,259**
31-Dec-13	**7,643**	**135**	**2,551**	**453**	**604**	**3**	**11,389**

	Land and buildings	Motor vehicles	Medical equipment	Furniture and fixtures	Leasehold improvement	Assets under construction	Total
Gross book value							
1-Jan-12	**8,303**	**433**	**2,669**	**1,507**	**1,053**	**1,120**	**15,085**
Additions	365	-	1,141	146	178	312	**2,142**
Internal transfers	1,432	-	-	-	-	(1,432)	**-**
Disposals	(13)	(147)	-	-	(25)	-	**(185)**
31-Dec-12	**10,087**	**286**	**3,810**	**1,653**	**1,206**	**-**	**17,042**
Accumulated depreciation							
1-Jan-12	**85**	**121**	**88**	**485**	**317**	**-**	**1,096**
Depreciation charge	487	47	710	319	164	-	**1,727**
Disposals	-	(40)	-	-	-	-	**(40)**
31-Dec-12	**572**	**128**	**798**	**804**	**481**	**-**	**2,783**
Net book value							
1-Jan-12	**8,218**	**312**	**2,581**	**1,022**	**736**	**1,120**	**13,989**
31-Dec-12	**9,515**	**158**	**3,012**	**849**	**725**	**-**	**14,259**

Property disposals include GEL 1,960 in respect of return of Ambrolauri hospital.

Property with the carrying value of GEL 9,926 is pledged to secure the financial liabilities (Note 16).

Amounts expressed in thousands of GEL unless otherwise stated

13 DEFERRED ACQUISITION COSTS

Deferred acquisition costs as of 31 December comprise:

	2013	2012
At 1 January	**360**	**235**
Incurred	658	852
Amortized	(731)	(727)
At 31 December	**287**	**360**

14 OTHER ASSETS

	2013	2012
Receivables from regress claims	1,925	1,767
Advances and prepayments	1,679	1,614
Prepaid operating taxes	1,221	1,492
Trade receivables	315	859
Inventory	659	468
Foreclosed assets	-	97
Receivable from sales of investments	882	-
Other	1,497	1,018
	8,178	**7,315**
Less - allowance for impairment of other assets (Note 29)	(3,088)	(1,973)
Total	**5,090**	**5,342**

As of 31 December 2013, advances and prepayments of the Company include GEL 354 (2012: GEL 1,078) advances paid to clinics.

Prepaid operating taxes of the Company include input VAT GEL 1,188 (2012: GEL 1,465) attributable to the AliansMedi + LLC as at 31 December 2013.

Inventory is related to the stock of medical supplies held by hospitals incorporated during 2012 and 2013.

15 OTHER INSURANCE LIABILITIES

Other insurance liabilities as of 31 December include:	2013	2012
Reinsurance payables	1,934	2,698
Claims payable	4,866	6,212
Total	**6,800**	**8,910**

Amounts expressed in thousands of GEL unless otherwise stated

16 FINANCIAL LIABILITIES

Financial liabilities as of 31 December comprise:

	2013	2012
Bank loans	14,359	15,093
Bank overdrafts	99	459
Other payables	278	426
Total	**14,736**	**15,978**

The bank loans have an average interest rate of 13.48% per annum (2012: 13.90%), maturing through January 2014 – November 2014 (2012: January 2013 – October 2014).

Included in bank loans are amounts obtained from JSC VTB Bank of GEL 3,557 (2012: GEL 4,014), JSC TBC Bank of GEL 4,433 (2012: GEL 3,926), JSC KorStandard Bank of GEL 2,611 (2012: GEL 3,450), BTA Bank of GEL 2,024 (2012: GEL 2,104), JSC Halyk Bank Georgia of GEL 155 (2012: 0) and JSC Privatbank of GEL 1,678 (2012: GEL 2,058). The bank loans are secured by the Company's property and equipment with carrying value of GEL 9,926 (2012: GEL 9,494) (Note 12) and Company's amounts due from credit institutions of GEL 1,389 (Note 6). Also, bank loans are secured by IC Group's 100% share in AliansMedi + LLC.

17 TRADE PAYABLES

Trade payables as of 31 December comprise:

	2013	2012
Payables for construction	-	2,514
Trade payable for medical services	314	699
Other payables	1,489	354
Total	**1,803**	**3,567**

18 OTHER LIABILITIES

Other liabilities as of 31 December comprise:

	IC Group	2013	2012
Accruals for employee compensation	378	757	763
Operating taxes payable	866	2,024	1,629
Advances received	287	647	400
Other	506	2,245	308
Total	***2,037***	**5,673**	**3,100**

19 EQUITY

The share capital of the Company was contributed by the shareholders in Georgian Lari and shareholders are entitled to dividends and any capital distribution in Georgian Lari. No dividends were declared during 2013 or 2012.

Amounts expressed in thousands of GEL unless otherwise stated

19 EQUITY (Continued)

Regulatory capital requirements in Georgia are set by the insurance regulator and are applied to the Company solely on a standalone basis. The regulator requirement is to maintain a minimum Capital of GEL 1,500, of which 80% should be kept as amounts due from credit institutions. Insurance Company IC Group LLC doesn't comply with the regulatory capital requirements as of 31 December 2013.

20 COMMITMENTS AND CONTINGENCIES

a) Legal

In the ordinary course of business, the Company is subject to legal actions and complaints. In February 2014 Aditi Ltd initiated legal process against the Company suing it for the unearned revenues of appr. GEL 10,000. Aditi Ltd claims that they could not generate these GEL 10,000 revenue because of the non-payment by the Company of Aditi's claim. The ultimate outcome of this case cannot be predicted with certainty, but the management discussed the issue with the Company's legal counsels and believes that this legal case will not result in any material liabilities accrued to the Company and so no provisions for this legal claim were recognised in the consolidated financial statements. Management believes that the ultimate liability, if any, arising from any other actions or complaints will also not have a material adverse effect on the financial condition or the results of future operations of the Company.

b) Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Georgia suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax, currency and customs positions will be sustained.

c) Financial commitments and contingencies

As of 31 December, the Company’s financial commitments and contingencies comprised the following:

	2013	**2012**
Operating lease commitments:		
Not later than 1 year	707	738
Later than 1 year but not later than 5 years	2,027	2,567
Capital commitments	301	-
Financial commitments and contingencies	**3,035**	**3,305**

Amounts expressed in thousands of GEL unless otherwise stated

21 NET INSURANCE REVENUE

Net insurance revenue comprises:

	Notes	2013	2012
Premium written on life insurance contracts	9	112	188
Premium written on general insurance contracts, direct	9	42,558	46,698
Total written premium		**42,670**	**46,886**
Gross change in life provision	9	28	(89)
Gross change in unearned premium provision	9	3,465	(9,006)
Total gross earned premiums on insurance contracts		**46,163**	**37,791**
Reinsurers' share of life insurance contracts premium revenue		(30)	-
Reinsurers' share of general insurance contracts premium revenue, direct	9	(3,160)	(6,529)
Reinsurers' share of change in life provision		4	-
Reinsurers' share of change in general insurance contracts unearned premium provision	9	(2,347)	(744)
Total reinsurers' share of gross earned premiums on insurance contracts		**(5,533)**	**(7,273)**
Net insurance revenue		**40,630**	**30,518**

22 INTEREST INCOME AND INTEREST EXPENSE

Interest expense and interest income from financial assets comprise:

	2013	2012
Interest income		
Amounts due from credit institutions	971	1,144
Loans issued and receivables	591	103
Cash and cash equivalents	8	18
Total interest income	**1,570**	**1,265**
Interest expense		
Bank loans and overdrafts	(2,035)	(1,894)
Net interest (expense)/income	**(465)**	**(629)**

23 REVENUE FROM MEDICAL SERVICES RENDERED

Revenue from medical services rendered comprise:

	2013	2012
Revenue from government programs	3,507	3,350
Revenue from free flow (non-insured retail individuals)	1,079	1,949
Revenue from insurance companies	243	689
Other revenue from medical services	599	566
Total	**5,428**	**6,554**

Amounts expressed in thousands of GEL unless otherwise stated

24 OTHER OPERATING INCOME AND EXPENSE

Other operating income and expense comprise:

	2013	2012
Other operating income		
Medical equipment free of charge	-	567
Write-off of claims payable balances	-	553
Medical inventory free of charge	206	146
Sale of other investsments	847	-
Sale of PPE	195	-
Other	1,140	319
Total other operating income	**2,388**	**1,585**
Other operating expense		
Penalties imposed	154	-
Cost of sold investments	750	-
Cost of sale of PPE	98	-
Other	641	683
Other operating expenses	**1,643**	**683**
Other operating income less other operating expenses	**745**	**902**

25 NET INSURANCE CLAIMS INCURRED

Net insurance claims incurred comprise:

	Notes	2013	2012
Life insurance claims paid	9	(25)	(28)
General insurance claims paid, direct	9	(33,507)	(27,264)
Total insurance claims paid		**(33,532.00)**	**(27,292)**
Reinsurers' share of life insurance claims paid		4	-
Reinsurers' share of general claims paid	9	9,137	6,245
Gross change in total insurance contracts liabilities	9	12,110	3,219
Reinsurers' share of change in total insurance contracts liabilities	9	(7,547)	(5,715)
Net insurance claims incurred		**(19,828)**	**(23,543)**

26 COST OF MEDICAL SERVICES PROVIDED

Cost of medical services provided comprise:

	2013	2012
Direct salary expense	(3,268)	(3,339)
Expenses on medical service providers	(3,934)	(1,472)
Other indirect expenses	(2,975)	(1,159)
Direct materials	(1,116)	(841)
Total	**(11,293)**	**(6,811)**

Amounts expressed in thousands of GEL unless otherwise stated

27 SALARIES AND OTHER EMPLOYEE BENEFITS

Salaries and other employee benefits comprise:	2013	2012
Salaries	(4,654)	(4,936)
Bonuses	(171)	(166)
Insurance and other benefits	(68)	(44)
Total	**(4,893)**	**(5,146)**

28 GENERAL AND OTHER ADMINISTRATIVE EXPENSES

General and administrative expenses comprise:	2013	2012
Occupancy and rent	(773)	(867)
Operating taxes	-	(455)
Communications	(153)	(426)
Legal and consultancy	(132)	(213)
Transportation	(59)	(77)
Utilities	(96)	(113)
Security	(36)	(79)
Marketing and advertising	(134)	(64)
Bank fees and commissions	(39)	(57)
Business travel and related expenses	(36)	(82)
Printing	(26)	(48)
Representative expenses	(37)	(36)
Office supplies	(81)	(74)
Repair and maintenance of property and equipment	(18)	(49)
Charity	(14)	(6)
Other	(292)	(574)
Total	**(1,926)**	**(3,220)**

29 ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

The movements in the allowance for insurance and reinsurance receivables, loans receivable and receivables from other assets were as follows:

	Insurance and reinsurance receivables (Note 7)	Loans issued and receivables (Note 8)	Other assets (Note 14)	Total
31-Dec-11	**3,725**	**44**	**905**	**4,674**
Charge	1,067	197	1,042	**2,306**
Write-off	(2,069)	(33)	26	**(2,076)**
31-Dec-12	**2,723**	**208**	**1,973**	**4,904**
Charge	333	5,279	1,131	**6,743**
Reversal	-	-	(16)	**(16)**
Write-off	-	-	-	**-**
31-Dec-13	**3,056**	**5,487**	**3,088**	**11,631**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

30 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 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 in the Company's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Company's risk management policies in relation to those risks follows.

Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with terms of reference for the executive management board. Management board delegates to respective members of senior management responsibilities for overseeing compliance with established risk management policies.

The management board approves the Company risk management policies and meets regularly to approve on any commercial, regulatory and own organizational requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

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 shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to funds available from financial institutions.
- 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 regulatory directives.

30 RISK MANAGEMENT (Continued)

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 co-ordinated 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.

The Company has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

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 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 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 loss ratio and combined ratio to monitor its insurance risk. Loss ratio is defined as net insurance claims divided by net insurance revenue. Combined ratio is sum of loss ratio and expense ratio. Expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue. The Company's loss ratios and combined ratios calculated on a net basis were as follows:

	2013	2012
Loss ratio	49%	77%
Combined ratio	67%	107%

The business of the Company comprises both life and general insurance contracts.

(1) Life insurance contracts

The Company writes life insurance contracts, where the life of the policyholder is insured against death or permanent disability, usually for a pre-determined amount.

The table below sets out the concentration of insured life benefits across 4 bands (band limits are in thousands of GEL).

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(1) Life insurance contracts (Continued)

	Gross claims liabilities	Reinsurers share of claims liabilities	Net claims liabilities
Claims liabilities per life insured at 31/12/2013			
GEL 0-100 thousand	31	-	**31**
100-200 thousand	-	-	**-**
200-1000 thousand	-	-	**-**
Greater than 1,000 thousand	-	-	**-**
Total	**31**	**-**	**31**
Claims liabilities per life insured at 31/12/2012			
GEL 0-100 thousand	133	-	**133**
100-200 thousand	-	-	**-**
200-1000 thousand	-	-	**-**
Greater than 1,000 thousand	-	-	**-**
Total	**133**	**-**	**133**

The Company’s underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all cost. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Currently, insured risks do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis. For contracts where death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. A Company does not reinsure the life insurance portfolio due to the avoidance of all high risk individual Company's insurance.

The geographical concentration of the Company’s insurance liabilities at 31 December 2013 and 2012 is as follows. The disclosure is based on the countries where the insurance business is written. Direct insurance business written is taken in Georgia.

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(1) Life insurance contracts (Continued)

	Gross claims liabilities	Reinsurers share of claims liabilities	Net claims liabilities
Claims liabilities per life insured at 31/12/2013			
Georgia	31	-	**31**
Total	**31**	**-**	**31**
Claims liabilities per life insured at 31/12/2012			
Georgia	133	-	**133**
Total	**133**	**-**	**133**

(2) General insurance contracts

The Company principally issues the following types of general insurance contracts: third party motor own damage, property, financial risks, health, guarantees, cargo, freight forwarding liability, general third party liability, motor third party liability, professional indemnity, marine hull, aviation hull, aviation TPL. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from changes in loss frequency and loss severity. For healthcare contracts the most significant risks arise from lifestyle changes and epidemic.

These risks vary significantly in relation to the 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.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The table below sets out the concentration of general insurance contract liabilities by type of contract.

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(2) General insurance contracts (Continued)

	2013			2012		
	Gross claims liabilities	**Reinsurers' share of claims liabilities**	**Net claims liabilities**	**Gross claims liabilities**	**Reinsurers' share of claims liabilities**	**Net claims liabilities**
Aviation	11,997	11,991	6	19,678	19,674	4
Healthcare	1,512	-	1,512	5,428	-	5,428
Motor	454	1	453	1,066	85	981
Liability	250	231	18	100	79	21
Life	31	-	31	133	-	133
Property	109	91	18	112	99	13
Cargo	134	114	20	80	39	41
Personal accident	37	-	37	32	-	32
Travel	12	-	12	16	-	16
Financial risks	3	-	3	2	-	2
Guarantees	2	-	2	2	-	2
Total	**14,540**	**12,429**	**2,112**	**26,649**	**19,976**	**6,673**

For general insurance contracts, the most significant risks arise from changes in loss frequency and loss severity in motor and financial risks insurance and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Company, and the type of risks insured.

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 changes in any subset of the portfolio

The variability of risks is also improved by careful selection and implementation of underwriting strategies. The Company establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Company also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Business ceded is placed on different terms (quota share, excess of loss) with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the consolidated statement of financial position as reinsurance assets.

The geographical concentration of the Company’s insurance liabilities at 31 December 2013 and 2012 is as follows. The disclosure is based on the countries where the insurance business is written. Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia.

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Insurance risk (Continued)

(2) General insurance contracts (Continued)

	2013			2012		
	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Georgia	14,540	12,429	2,111	26,649	19,976	6,673
Total	**14,540**	**12,429**	**2,111**	**26,649**	**19,976**	**6,673**

Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk it accepts through a comprehensive group credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

The following is a brief description of how the Company manages its credit risk exposure:

Reinsurance

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract. There is no single counterparty exposure that exceeds 28% of total reinsurance assets at the reporting date. The Company evaluates the financial condition of its reinsurers regularly.

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(1) Credit risk (Continued)

Loans issued and receivables

The Company sets the maximum amounts and limits that may be advanced to / placed with individual corporate counterparties which are set by reference to their long term ratings.

The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document on the expiry of which the policy is either paid up or terminated.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Company through internal credit assessment procedures. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Company's credit assessment system.

	Notes	Neither past due nor impaired 2013	Past-due but not impaired 2013	Total 2013
Amounts due from credit institutions	6	6,594	-	**6,594**
Insurance and reinsurance receivables:	7			
Insurance receivables		20,464	(5)	**20,459**
Reinsurance receivables		-	-	-
Total		**27,058**	**(5)**	**27,053**

	Notes	Neither past due nor impaired 2012	Past-due but not impaired 2012	Total 2012
Amounts due from credit institutions	6	11,997	-	**11,997**
Insurance and reinsurance receivables:	7			
Insurance receivables		21,553	385	**21,938**
Reinsurance receivables		-	-	**-**
Total		**33,550**	**385**	**33,935**

Insurance and reinsurance receivables that are neither past due nor impaired include insurance and reinsurance receivables that are not past due more than 30 days as of the reporting date. Insurance and reinsurance receivables that are past due but not impaired include insurance and reinsurance receivables overdue for more than 30 days. The Company does not have a credit rating system to evaluate past due but not impaired receivables.

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts and the maturity of debt securities.

The Company manages liquidity through a Company liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specify the sources of funding and the events that would trigger the plan; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The table below analyses assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

31-Dec-13	Within one year	More than one year	Total
Assets:			
Cash and cash equivalents	1,497	-	**1,497**
Amounts due from credit institutions	6,594	-	**6,594**
Insurance and reinsurance receivables	20,459	-	**20,459**
Reinsurance assets	2,156	11,893	**14,049**
Loans issued and receivables	1,965	-	**1,965**
Current income tax asset	815	-	**815**
Deferred income tax asset	-	1,913	**1,913**
Other assets	5,090	-	**5,090**
Total assets	**38,576**	**13,806**	**52,382**
Liabilities:			
Insurance contract liabilities	23,422	11,893	**35,315**
Other insurance liabilities	6,800	-	**6,800**
Financial liabilities	7,685	7,051	**14,736**
Deferred income tax liability	-	-	**-**
Other liabilities	7,476	-	**7,476**
Total liabilities	**45,383**	**18,944**	**64,327**
Net position	**(6,807)**	**(5,138)**	**(11,945)**
Accumulated gap	***(6,807)***	***(11,945)***	

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(2) Liquidity risk (Continued)

31-Dec-12	Within one year	More than one year	Total
Assets:			
Cash and cash equivalents	688	-	**688**
Amounts due from credit institutions	6,503	5,494	**11,997**
Insurance and reinsurance receivables	21,938	-	**21,938**
Reinsurance assets	4,275	19,664	**23,939**
Loans issued and receivables	1,462	-	**1,462**
Current income tax asset	815	-	**815**
Deferred income tax asset	-	1,815	**1,815**
Other assets	5,342	-	**5,342**
Total assets	**41,023**	**26,973**	**67,996**
Liabilities:			
Insurance contract liabilities	31,251	19,665	**50,916**
Other insurance liabilities	8,910	-	**8,910**
Financial liabilities	5,916	10,062	**15,978**
Deferred income tax liability	-	-	**-**
Other liabilities	6,667	-	**6,667**
Total liabilities	**52,744**	**29,727**	**82,471**
Net position	**(11,721)**	**(2,754)**	**(14,475)**
Accumulated gap	***(11,721)***	***(14,475)***	

The amounts and maturities in respect of insurance liabilities are based on management's best estimate based on statistical techniques and past experience.

The Company's capability to discharge its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. In the Georgian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. In order to strengthen liquidity position of the Company, the Company has borrowed funds from different banks in amount of GEL 4,356 subsequent to reporting date and GEL 5,051 were returned. In Management's opinion credit facilities will enable the Company to handle the liquidity position efficiently.

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Financial risk (Continued)

(2) Liquidity risk (Continued)

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2013					
Financial liabilities	6,217	2,671	5,848	-	14,736
Total undiscounted financial liabilities	**6,217**	**2,671**	**5,848**	**-**	**14,736**
As at 31 December 2012					
Financial liabilities	3,783	2,133	2,253	7,809	15,978
Total undiscounted financial liabilities	**3,783**	**2,133**	**2,253**	**7,809**	**15,978**

Geographical concentration

The geographical concentration of the Company's assets and liabilities at 31 December 2013 and 2012 is as follows. The disclosure is based on the countries where the insurance business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2013				
Assets:				
Loans issued and receivables	1,965	-	-	**1,965**
Reinsurance assets	186	11,995	1,868	**14,049**
Deferred income tax assets	1,913	-	-	**1,913**
Current income tax assets	815	-	-	**815**
Other assets	5,090	-	-	**5,090**
Insurance and reinsurance receivables	20,459	-	-	**20,459**
Amounts due from credit institutions	6,594	-	-	**6,594**
Cash and cash equivalents	1,497	-	-	**1,497**
Total assets	**38,519**	**11,995**	**1,868**	**52,382**

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Geographical concentration (Continued)

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2013				
Liabilities:				
Insurance contracts liabilities	35,315	-	-	**35,315**
Other insurance liabilities	5,118	203	1,479	**6,800**
Financial liabilities	14,736	-	-	**14,736**
Other liabilities	7,476	-	-	**7,476**
Total liabilities	**62,645**	**203**	**1,479**	**64,327**
Net position	**(24,126)**	**11,792**	**389**	**(11,945)**

	Georgia	OECD countries	Non-OECD countries	Total
As at 31 December 2012				
Assets:				
Loans issued and receivables	1,462	-	-	**1,462**
Reinsurance assets	348	21,958	1,633	**23,939**
Deferred income tax assets	1,815	-	-	**1,815**
Current income tax assets	815	-	-	**815**
Other assets	5,342	-	-	**5,342**
Insurance and reinsurance receivables	21,938	-	-	**21,938**
Amounts due from credit institutions	11,997	-	-	**11,997**
Cash and cash equivalents	688	-	-	**688**
Total assets	**44,405**	**21,958**	**1,633**	**67,996**
Liabilities:				
Insurance contracts liabilities	50,916	-	-	**50,916**
Other insurance liabilities	6,679	1,204	1,027	**8,910**
Financial liabilities	15,978	-	-	**15,978**
Other liabilities	6,667	-	-	**6,667**
Total liabilities	**80,240**	**1,204**	**1,027**	**82,471**
Net position	**(35,835)**	**20,754**	**606**	**(14,475)**

30 RISK MANAGEMENT (Continued)

Market risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges.

The Company has exposure to market risks. Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company structures levels of market risk it accepts through a Company market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; sets out the net exposure limits by each counterparty or Company of counterparties, geographical and industry segments; control over hedging activities; reporting of market risk exposures and breaches to the monitoring authority; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment, periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margins.

Interest rate risk

All financial instruments bear fixed interest rate. Thus no significant interest risk exposure currently exists.

Currency risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Company's principal transactions are carried out in Georgian lari and its exposure to foreign exchange risk arise primarily with respect to US dollars and euro, as the insurance operations denominated in US dollars form a significant part of the Company's operations.

The Company’s financial assets are primarily denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2013 and 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement, while a positive amount reflects a net potential increase:

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Market risk (Continued)

Currency risk (Continued)

	2013			
	GEL	USD	EUR	Total
Financial assets:				
Cash and cash equivalents	437	1,057	3	**1,497**
Amounts due from credit institutions	2,003	4,495	96	**6,594**
Loans issued and receivables	1,965	-	-	**1,965**
Insurance and reinsurance receivables	18,717	1,726	16	**20,459**
Reinsurance assets	911	13,138	-	**14,049**
Total financial assets	**24,033**	**20,416**	**115**	**44,564**
Financial liabilities:				
Insurance contracts liabilities	21,001	14,260	54	**35,315**
Other insurance liabilities	4,951	1,849	-	**6,800**
Financial liabilities	2,549	12,187	-	**14,736**
Other liabilities	7,476	-	-	**7,476**
Total financial liabilities	**35,977**	**28,296**	**54**	**64,327**
Net position	**(11,944)**	**(7,880)**	**61**	**(19,763)**
Increase in currency rate in %		**5.00%**	**10.00%**	
Effect on profit		**(394)**	**6**	
Increase in currency rate in %		**-5.00%**	**-10.00%**	
Effect on profit		**394**	**(6)**	

	2012			
	GEL	USD	EUR	Total
Financial assets:				
Cash and cash equivalents	572	113	3	**688**
Amounts due from credit institutions	2,003	9,906	88	**11,997**
Loans issued and receivables	125	1,337	-	**1,462**
Insurance and reinsurance receivables	19,582	2,313	43	**21,938**
Reinsurance assets	25	23,900	14	**23,939**
Total financial assets	**22,307**	**37,569**	**148**	**60,024**

Amounts expressed in thousands of GEL unless otherwise stated

30 RISK MANAGEMENT (Continued)

Market risk (Continued)

Currency risk (Continued)

	2012			
	GEL	**USD**	**EUR**	**Total**
Financial liabilities:				
Insurance contracts liabilities	46,183	4,654	79	**50,916**
Other insurance liabilities	6,290	2,609	11	**8,910**
Financial liabilities	2,463	13,515	-	**15,978**
Other liabilities	6,667	-	-	**6,667**
Total financial liabilities	**61,603**	**20,778**	**90**	**82,471**
Net position	**(39,296)**	**16,791**	**58**	**(22,447)**
Increase in currency rate in %		**5.00%**	**10.00%**	
Effect on profit		**840**	**6**	
Increase in currency rate in %		**-5.00%**	**-10.00%**	
Effect on profit		**(840)**	**(6)**	

Foreign currencies represent mainly US dollar and euro amounts, but also include currencies from other OECD countries. The Company's principal cash flows (revenues, operating expenses) are largely generated in Georgian lari. As a result, future movements in the exchange rate between the Georgian lari and US dollar will affect the carrying value of the Company's US dollar denominated monetary assets and liabilities. Such changes may also affect the Company's ability to realize investments in non-monetary assets as measured in USD in these financial statements.

Price risk

The Company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. The Company did not have such financial assets or liabilities as of 31 December 2013 and 2012.

31 RELATED PARTY TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures* , parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Amounts expressed in thousands of GEL unless otherwise stated

31 RELATED PARTY TRANSACTIONS (Continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2013		2012	
	Parent	**Entities under common control**	**Parent**	**Entities under common control**
Assets				
Loans issued and receivables	-	1,442	-	1,340
Insurance and reinsurance receivables	4	-	2	-
Other assets	-	-	-	368
	4	**1,442**	**2**	**1,708**
Liabilities				
Loans payable	-	-	-	249
Dividends payable	-	-	-	-
Other Liabilities	319	-	-	-
	319	**-**	**-**	**249**
Income and expenses				
Insurance premium	6	-	7	7
Interest income on financial liabilities	-	-	-	-
Interest expense on financial liabilities	-	-	-	(34)
Other expenses	-	-	-	(808)
	6	**-**	**7**	**(835)**

Compensation of key management personnel (2013: 2 persons; 2012: 2 persons) comprised the following:

	2013	2012
Salaries and bonuses	672	472
Total key management compensation	**672**	**472**

Remuneration of Consultation Committee (2013: 5 members, 2012: 9 member) comprised the following:

	2013	2012
Salaries and other benefits	503	639
Total Consultation Committee remuneration	**503**	**639**

Members of the committee are responsible for provision of consultations regarding the strategic directions of the Company.

32 GOING CONCERN CONSIDERATIONS

These financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the normal course of business of the Group.

Though in the past years the Group was loss making (loss in 2013 was GEL 390, in 2012 GEL 3,842 and in 2011 GEL 1,360) still the Group has sufficient equity (at December 31, 2013: GEL 2,277 including GEL 777 accumulated profit.) which is well above required minimum capital.

The management believes that the Group will continue its operations in the foreseeable future without significant limitations and thus the financial statements should be prepared on a going concern basis.

33 EVENTS AFTER REPORTING DATE

As a result of the new Universal Healthcare Programme initiated by government some major healthcare programs financed by the government and managed by private insurance companies, including IC Group, were cut in 2014. This development in the state insurance policy has influenced the incomes of many private insurance companies, including IC Group, but it's effect is not significantly negative for the results of the Group's operations.

In September 20, 2014 the Group sold hospital building located in Khashuri district with carrying amount of GEL 1,347 for sale price of GEL 3,498. In addition, government of Georgia redeemed building, medical and other equipment of hospitals located in Mestia, Tsageri and Oni districts and medical equipment of hospital in Ambrolauri district. Property and equipment of total carrying amount of GEL 5,075 was sold for GEL 4,969 in December 15, 2014. All of the sold hospitals were loss-bringing . Therefore, getting rid of them will have positive affect on future operations of the group.

The Group also sold investment property of four of its subsidiaries - Bolnisi District Hospital LLC, Bolnisi District Adults Polyclinic LLC, Diagnostics - 2000 LLC and Bolnisi District Emergency Service - 03 LLC. Total carrying value of property as at the date of sale (December 31, 2014) was GEL 1,119 and the sale price amounted GEL 1,100. The above mentioned property was acquired in May 23, 2012 for GEL 310.

There have been no other event after the reporting date which require disclosures or adjustments in these financial statements.