# JSC Insurance Company Aldagi Group

Special purpose consolidated financial statements

*Five months ended 31 December 2014*
*Together with Independent Auditors' Report*

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### SPECIAL PURPOSE INDEPENDENT AUDITORS' REPORT



### NOTES TO SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

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# Independent auditors' report

To the shareholders and Management Board of JSC Insurance company Aldagi

We have audited the accompanying special purpose consolidated financial statements of JSC Insurance company Aldagi and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and as at 1 August 2014 and consolidated statement of comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for 5 months ended 31 December 2014, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of the Group based on requirements of Insurance State Supervision Service of Georgia ("the ISSSG").

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the special purpose consolidated financial statements of JSC Insurance company Aldagi for the 5 months ended 31 December, 2014 are prepared, in all material respects, in accordance with the financial reporting provisions of the ISSSG.

### *Basis of accounting and restriction on use*

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist the Group to comply with the financial reporting provisions of the ISSSG to above. As a result, the financial statements may not be suitable for another purpose. Our auditors' report is intended solely for the Group and the ISSSG and should not be used by parties other than the Group or the ISSSG.

EY Georgia LLC

15 May 2015

## SPECIAL PURPOSE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

*(Thousands of Georgian lari)*

| | *Notes* | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 2,688 | 2,776 |
| Bank deposits | 6 | 12,655 | 8,077 |
| Insurance and reinsurance receivables | 7 | 17,828 | 24,415 |
| Loans issued | 8 | 5,216 | 1,613 |
| Reinsurance assets | 17 | 11,290 | 16,134 |
| Current income tax assets | | 82 | 82 |
| Deferred income tax assets | 9 | 701 | 476 |
| Deferred acquisition costs | 10 | 1,418 | 707 |
| Property and equipment | 11 | 8,712 | 8,194 |
| Goodwill and other intangible assets | 12 | 13,675 | 13,557 |
| Pension fund assets | 13 | 11,289 | 10,626 |
| Other assets | 15 | 2,654 | 2,774 |
| **Total assets** | | **88,208** | **89,431** |
| **Equity** | | | |
| Share capital | 16 | 1,600 | 1,600 |
| Additional paid-in capital | | 2,883 | 2,529 |
| Revaluation reserve | | 85 | 85 |
| Retained earnings | | 20,220 | 19,101 |
| **Total equity** | | **24,788** | **23,315** |
| **Liabilities** | | | |
| Insurance contract liabilities | 17 | 27,986 | 33,889 |
| Derivative financial liabilities | 18 | 1,768 | – |
| Other insurance liabilities | 19 | 15,349 | 16,414 |
| Current income tax liabilities | | 527 | – |
| Borrowings | 20 | 2,930 | 3,618 |
| Pension Fund Liability | 13 | 11,289 | 10,626 |
| Other liabilities | 21 | 3,571 | 1,569 |
| **Total liabilities** | | **63,420** | **66,116** |
| **Total equity and liabilities** | | **88,208** | **89,431** |

Signed and authorized for release on behalf of the Management Board of JSC Insurance Company Aldagi:

Giorgi Baratashvili General Director

Lasha Khakhutaishvili Chief Financial Officer

15 May 2015

*The accompanying notes on pages 5 to 46 are an integral part of these special purpose consolidated financial statements.*

**SPECIAL PURPOSE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 AUGUST 2014, THE SPLIT DATE, TO 31 DECEMBER 2014**

*(Thousands of Georgian lari)*

| | *Notes* | *Five months ended 31 December 2014* |
|---|---|---|
| Gross earned premiums on insurance contracts | | 22,856 |
| Reinsurers' share of gross earned premiums on insurance contracts | | (8,530) |
| **Net insurance revenue** | 23 | **14,326** |
| Interest income | 24 | 504 |
| Other operating income | 25 | 747 |
| **Other revenue** | | **1,251** |
| **Total revenue** | | **15,577** |
| Gross insurance benefits and claims paid | | (6,850) |
| Reinsurers' share of gross insurance benefits and claims paid | | 1,234 |
| Gross change in insurance contracts liabilities | | 1,865 |
| Reinsurers' share of gross change in insurance contracts liabilities | | (1,284) |
| **Net insurance claims** | 26 | **(5,035)** |
| Acquisition costs, net of reinsurance | 27 | (1,636) |
| Salaries and other employee benefits | 28 | (2,739) |
| General and administrative expenses | 29 | (1,724) |
| Depreciation and amortization expenses | 11 | (264) |
| Impairment charge | 14 | (272) |
| Interest expense | 24 | (155) |
| Foreign exchange and translation loses | | (2,271) |
| Other operating expenses | | (57) |
| **Other expenses** | | **(9,118)** |
| **Total claims and expenses** | | **(14,153)** |
| **Income before tax** | | **1,424** |
| Income tax expense | 9 | (305) |
| **Net income** | | **1,119** |
| Other comprehensive income | | – |
| **Total comprehensive income** | | **1,119** |

*The accompanying notes on pages 5 to 46 are an integral part of these special purpose consolidated financial statements.*

**SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE FIVE MONTHS ENDED 31 DECEMBER 2014**

*(Thousands of Georgian lari)*

| | *Share Capital* | *Additional paid-in capital* | *Revaluation reserve* | *Retained Earnings* | *Total Equity* |
|---|---|---|---|---|---|
| **1 August 2014** | **1,600** | **2,529** | **85** | **19,101** | **23,315** |
| Total comprehensive income | – | – | – | 1,119 | **1,119** |
| Share based transactions (Note 16) | – | 354 | – | – | **354** |
| **31 December 2014** | **1,600** | **2,883** | **85** | **20,220** | **24,788** |

*The accompanying notes on pages 5 to 46 are an integral part of these special purpose consolidated financial statements.*

**SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE FIVE MONTHS ENDED 31 DECEMBER 2014**

*(Thousands of Georgian lari)*

| | ***Notes*** | ***Five months ended 31 December 2014*** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Insurance premium received | | 21,354 |
| Reinsurance premium paid | | (2,532) |
| Insurance benefits and claims paid | | (6,912) |
| Reinsurance claims received | | 1,722 |
| Acquisition costs paid | | (1,623) |
| Salaries and benefits paid | | (2,186) |
| Cash paid to other suppliers of goods and services | | (160) |
| Interest received | | 133 |
| Interest paid | | (156) |
| Operating taxes paid | | (64) |
| Other operating income received | | 845 |
| Other operating expenses paid | | (1,547) |
| **Net cash flows from operating activities before income tax** | | **8,874** |
| Income tax paid | | – |
| **Net cash flows from operating activities** | | **8,874** |
| | | |
| **Cash flows from (used in) investing activities** | | |
| Purchase of premises and equipment | | (611) |
| Purchase of intangible assets | | (2) |
| Loans issued | | (4,234) |
| Proceeds from loan issued | | 1,000 |
| Placement of bank deposits | | (4,228) |
| **Net cash flows from used in investing activities** | | **(8,075)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | | 1,000 |
| Repayment of borrowings | | (1,895) |
| **Net cash flows from financing activities** | | **(895)** |
| | | |
| Effect of exchange rates changes on cash and cash equivalents | | 8 |
| **Net decrease in cash and cash equivalents** | | (88) |
| **Cash and cash equivalents, 1 August** | 5 | 2,776 |
| **Cash and cash equivalents, 31 December** | 5 | **2,688** |

*The accompanying notes on pages 5 to 46 are an integral part of these special purpose consolidated financial statements.*

*(Thousands of Georgian lari unless otherwise stated)*

## 1. Principal Activities

JSC Insurance Company Aldagi was established on 11 August 1998 under the laws of Georgia. Together with its subsidiaries, up until 1 August 2014, it offered wide range of health insurance products, property and casualty products, and provided medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout the whole Georgian territory. In 2014 JSC Insurance Company Aldagi ("pre-split Aldagi") and its subsidiaries ("pre-split Aldagi Group") began a corporate reorganization in order to separate healthcare and health insurance business from property and casualty insurance business.

As a result of the reorganization, on 1 August 2014, pre-split Aldagi's property and casualty business was separated from health insurance business and transferred to a newly established legal entity retaining the same brand name, JSC Insurance Company Aldagi (the "Company"). At the same time, healthcare providers included in the pre-split Aldagi Group were transferred to a newly established holding company, JSC EVEX. Period up until 1 August 2014 is further referred to as "the pre-split period", the remaining part of 2014 – as "the post-split period".

The Company possesses two types of insurance licences issued by the Insurance Bureau and Supervisory Board of Georgia for life and non-life insurance products, as well as a licence to act as a pension fund. The Company offers various life and non-life insurance services and insurance products relating to property, liability, and others. The main office of the Company is located in Tbilisi and it has five additional service centers in Tbilisi, Batumi, Poti, Kutaisi and Ozurgeti. The Company's legal address is 3, Pushkin Street, 0105 Tbilisi, Georgia.

The Company is the parent of the following enterprises incorporated in Georgia (together representing the "Aldagi Group" or the "Group").

| | ***Ownership/ Voting*** | | | | |
|---|---|---|---|---|---|
| **Subsidiary** | ***31 December 2014*** | ***1 August 2014*** | ***Date of incorporation*** | ***Industry*** | ***Date of acquisition*** |
| Aliance, LLC | 100% | 100% | 01 March 2000 | Other | 30 April 2012 |
| Green Way, LLC | 100% | 100% | 27 December 2010 | Services | 30 April 2012 |
| Centromed, LLC | 100% | 100% | 09 July 2010 | Tourism & Hospitality | 30 April 2012 |

As at 31 December 2014 the Group has the following shareholders:

| **Shareholder** | ***31 December 2014*** | ***1 August 2014*** |
|---|---|---|
| JSC Bank of Georgia | 85% | 85% |
| JSC Galt and Taggart Holding | 15% | 15% |
| **Total** | **100.00%** | **100.00%** |

As at 31 December 2014 the Group's ultimate parent is Bank of Georgia Holdings plc.

*(Thousands of Georgian lari unless otherwise stated)*

## 2. Basis of Preparation

### General

The special purpose consolidated financial statements of the Group for five months ended 31 December 2014 have been prepared in accordance with requirements of regulator - Insurance State Supervision Service of Georgia (ISSSG). Under these requirements, special purpose consolidated financial statements of the Company cover the post-split period only, presenting assets and liabilities transferred to the Company on 1 August 2014 according to demerger agreement as an opening statement of financial position.

Accordingly, these special purpose financial statements include consolidated statement of comprehensive income statement, consolidated statement of changes in equity, consolidated statement of cash flows for five month period starting from 1 August 2014 to 31 December 2014, and consolidated statement of financial position as at 31 December 2014 and opening consolidated statement of financial position at 1 August 2014, as well as notes comprising a summary of significant accounting policies and other explanatory information. Opening consolidated statement of financial position presents assets transferred to, and liabilities assumed by the Company as the result of the reorganization described in Note 1 above.

Group's accounting policies applied in preparation of these special purpose consolidated financial statements described in Note 3 are developed based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), except for the cases when the Group applies specific accounting policies to comply with the requirements of the ISSSG. Management of the Group believes this is an appropriate and robust accounting framework which has been consistently applied.

The difference between Group's accounting policies applied in preparation of these special purpose consolidated financial statements and IFRS is the absence of comparative consolidated income statement, consolidated statement of comprehensive income, consolidated statements of changes in equity and statements of cash flows, as well as respective explanatory notes, and risk management, fair value measurements and related party transactions notes of opening consolidated financial position statement as at 1 August 2014.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. These consolidated financial statements are presented in thousands of Georgian lari ("GEL"), except per share amounts and unless otherwise indicated. GEL is the functional currency of the Company and its subsidiaries as the majority of their transactions are denominated, or funded in Georgian lari. Transactions in other currencies are treated as transactions in foreign currencies. The Group presents its consolidated statement of financial position broadly in order of liquidity.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies

### Basis of consolidation

The special purpose consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group 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. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

### Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Product classification

*Insurance contracts*

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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

### 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 statement of comprehensive income.

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 Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

### Insurance contract liabilities

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 Group 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 statement of comprehensive income by setting up a provision for premium deficiency.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Reinsurance assets

The Group cedes insurance risk in the normal course of business for all of its businesses. 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.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the consolidated statement of comprehensive income. 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.

### Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognized as an expense when incurred. Acquisition costs deferred consist of commissions to sales agents and brokerage companies assisting in policy issuance.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and bank deposits that mature within three months from the date of origination and are free from contractual encumbrances.

### Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans 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 Group determines the classification of its financial assets upon initial recognition.

*Loans and receivables*

Loans 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.

Regress and other receivables are recognized at their original invoiced value. Where the time value of money is material, receivables are carried at amortized cost.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### 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 Group.

### Allowances for impairment of loans and receivables

The Group 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 statement of comprehensive income.

*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 Group 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of comprehensive income.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

**Derecognition of financial assets and liabilities**

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group'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 Group could be required to repay.

*Financial liabilities*

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

**Derivative financial instruments**

As part of its risk management strategy, the Group uses foreign exchange contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are initially recognised and are subsequently measured at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of comprehensive income in foreign exchange and translation losses.

**Fair value measurement**

The Group measures financial instruments, such as derivatives and certain non-financial assets such as office buildings, at fair value at the end of each reporting period. Fair values of financial instruments measured at amortised cost are disclosed in Note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Fair value measurement (continued)

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

### Property and equipment

Property and equipment except for office buildings are carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognized in the consolidated statement of comprehensive income as an expense.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in consolidated statement of comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of comprehensive income, in which case the increase is recognized in the consolidated statement of comprehensive income. A revaluation deficit is recognized in the consolidated statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | *Years* |
|---|---|
| Office buildings | 50-100 |
| Furniture and fixtures | 5-10 |
| Computers and equipment | 5-10 |
| Motor vehicles | 5 |

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Property and equipment (continued)

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

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

Assets under construction comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable and fixed overheads that have been incurred during the construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are available for use.

### Pension Fund Assets and Liabilities

The Group provides management and employees of the Group, management and employees of the parent of the Group – JSC Bank of Georgia, as well as the Group non-related broad client base with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group and JSC Bank of Georgia. The Group collects contributions from its employees as well as employees of JSC Bank of Georgia and other clients. When a client reaches the pension age, aggregated contributions, plus any income earned on the employee's behalf are paid to the employee according to the schedule agreed with the client. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. In case of leaving the occupied position, the client is entitled to accumulated contributions in form of a lump sum.

The Group holds the licence to act as a pension fund. Under this licence the Group is authorized to receive pension contribution from the population of Georgia, with obligation to repay contributions plus earnings.

Assets and liabilities of the Fund are accounted for within Pension Fund Assets and Pension Fund Liabilities. Pension Fund Assets and Pension Fund liabilities are measured at amortized cost or fair value, depending on classification made at initial recognition.

### Borrowings

Borrowings are initially recognized at fair value plus directly attributable transaction costs.

After initial recognition, these are measured at amortised cost using the effective interest rate ("EIR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Taxation

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

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 goodwill or 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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised 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.

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

### Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognized as an expense as incurred.

### Provisions and contingent liabilities

Provisions are recognized when the Group 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 Group 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.

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.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of the Group's ultimate parent, BGH. Grants are made by both the BGH and the Group. Respective grants made by BGH are treated as equity settled transactions, while those made by the Group itself - as cash-settled transactions.

*Equity-settled transactions*

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

The cost of equity settled transactions is recognized together with the corresponding increase in additional paid in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

*Cash-settled transactions*

The cost of cash-settled transactions is measured initially at fair value at the grant date based on market. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in employee benefits expense.

### Share capital

*Share capital*

Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

### Income and expense recognition

*Premium written*

Insurance premiums written are recognized on policy inception and earned on a pro rata basis over the term of the related policy coverage. Insurance premiums written reflect business incepted during the year, are shown before deduction of commission 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 monthly pro rata basis.

*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.

*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 statement of comprehensive income in the order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

### Income and expense recognition (continued)

*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.

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 and its subsidiaries 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 statement of comprehensive income 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 2014 and 1 August 2014, were 1.8636 and 1.7388 Georgian lari to 1 US dollar, respectively.

*(Thousands of Georgian lari unless otherwise stated)*

## 3. Summary of Significant Accounting Policies (continued)

**Standards and interpretations 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. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed are as follows:

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

*(Thousands of Georgian lari unless otherwise stated)*

## 4. Significant Accounting Judgments, Estimates and Assumptions

### 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:

*Claims liability arising from insurance contracts*

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

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.

The carrying value of insurance claims provisions as at 31 December 2014 was GEL 7,535 (As at 1 August 2014: GEL 9,399). For more details on insurance claims provisions please refer to note 17.

*Allowance for impairment of Insurance Receivables and Reinsurance Receivables*

The Group regularly reviews its insurance receivables to assess impairment. For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised 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 debt that the Group has adequate reasons to believe will be recovered. Management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end. The carrying amount of allowance on insurance receivables as at 31 December 2014 was GEL 2,664 (As at 1 August 2014: GEL2,114). For further details on allowance for impairment of insurance receivables and reinsurance receivables are disclosed in note 7 and 14.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment loss was identified as at 31 December 2014 and 1 August 2014. The key assumptions used to determine carrying amount of goodwill are provided in note 12.

*Measurement of fair value of office buildings*

The fair value of office buildings is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalisation method (also known as discounted future cash flow method) and the sales comparison method.

The estimates described above are subject to change as new transaction data and market evidence become available.

*(Thousands of Georgian lari unless otherwise stated)*

## 5. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December 2014 and 1 August 2014 comprise:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Cash on hand | 30 | – |
| Current accounts | 2,658 | 2,776 |
| **Total cash and cash equivalents** | **2,688** | **2,776** |

Cash and Cash Equivalents of JSC Insurance Company Aldagi on stand-alone basis comprise GEL 2,651 (As at 1 August 2014 – GEL 2,682). The ISSSG requirement is to maintain minimum level of cash and cash equivalents at 10% of the insurance contract liabilities subject to reservation as defined by ISSSG regulatory reserve requirement resolution, which as of the reporting date amounts to GEL 2,090 (As at 1 August 2014 – GEL 1,999).

## 6. Bank Deposits

Bank deposits as of 31 December 2014 and 1 August 2014 comprise:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| - JSC TBC Bank | 2,922 | 2,349 |
| - JSC Bank of Georgia | 2,563 | 1,002 |
| - JSC Kor Standart Bank | 2,149 | 2,147 |
| - JSC PrivatBank | 1,503 | 751 |
| - JSC BTA Bank | 1,064 | 749 |
| - JSC Basis Bank | 1,020 | – |
| - JSC Bank Constanta | 859 | 828 |
| - JSC Liberty Bank | 575 | 251 |
| **Total bank deposits** | **12,655** | **8,077** |

Bank deposits are represented by short (for 3 to 12 months) and medium-term placements with Georgian banks and earn annual interest of 7% to 12% (As at 1 August 2014 – 7.0% to 14.5%).

## 7. Insurance and Reinsurance Receivables

Insurance and reinsurance receivables as of 31 December 2014 and 1 August 2014 comprise:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Due from policyholders | 19,157 | 24,455 |
| Due from reinsurers | 1,335 | 2,074 |
| | **20,492** | **26,529** |
| Less – allowance for impairment for amounts due from policyholders (Note 14) | (2,664) | (2,114) |
| **Total insurance and reinsurance receivables** | **17,828** | **24,415** |

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

*(Thousands of Georgian lari unless otherwise stated)*

## 8. Loans Issued

As of 31 December 2014, Loans issued by the Group consist mainly of the loans granted to JSC Insurance Company Imedi L and Block Georgia.

| | ***As at 31 December 2014*** | ***As at 1 August 2014*** |
|---|---|---|
| JSC Insurance Company Imedi L | 2,419 | – |
| Block Georgia | 1,799 | 1,613 |
| Unimed Samtskhe, LLC | 529 | – |
| JSC United Capital | 469 | – |
| **Total loans issued** | **5,216** | **1,613** |

## 9. Taxation

The corporate income tax expenses comprise:

| | ***Five months ended 31 December 2014*** |
|---|---|
| Current tax charge | 530 |
| Deferred tax charge – origination and reversal of temporary differences | (225) |
| **Income tax expense** | **305** |

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2014.

The effective income tax rate differs from the statutory income tax rates. As of 31 December a reconciliation of the income tax expense based on statutory rates with actual is as follows:

| | ***Five months ended 31 December 2014*** |
|---|---|
| **Income before tax** | **1,424** |
| Statutory tax rate | 15% |
| **Theoretical income tax expense at the statutory rate** | **214** |
| Non-taxable income | (83) |
| Non-deductible expenses | 174 |
| **Income tax expense** | **305** |

*(Thousands of Georgian lari unless otherwise stated)*

## 9. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

| | *As at 1 August 2014* | *In the income statement* | *As at 31 December 2014* |
|---|---|---|---|
| **Tax effect of deductible temporary differences:** | | | |
| Insurance receivables | 995 | 89 | 1,084 |
| Tax loss carried forward | 368 | 199 | 567 |
| Other assets | 720 | 99 | 819 |
| Investments in subsidiaries | 87 | – | 87 |
| **Deferred tax assets** | **2,170** | **387** | **2,557** |
| **Tax effect of deductible temporary differences:** | | | |
| Insurance contracts liabilities | 237 | (17) | 220 |
| Property and equipment | 168 | 24 | 192 |
| Intangible assets | 1,289 | 135 | 1,424 |
| Other liabilities | – | 20 | 20 |
| **Deferred tax Liabilities** | **1,694** | **162** | **1,856** |
| **Net Deferred tax assets** | **476** | **225** | **701** |

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

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 related 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 Group 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.

The Group’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 Group could have a material impact on the Group’s operations or its financial position in Georgia.

## 10. Deferred Acquisition Costs

Deferred acquisition costs ("DAC") on direct, assumed and ceded reinsurance are as follows:

| | |
|---|---|
| **At 1 August 2014** | **707** |
| Expenses deferred (note 27) | 822 |
| Amortization (note 27) | (111) |
| **At 31 December 2014** | **1,418** |

*(Thousands of Georgian lari unless otherwise stated)*

## 11. Property and Equipment

The movements in property and equipment were as follows:

| | *Land and Buildings* | *Furniture and fixtures* | *Computers and equipment* | *Motor vehicles* | *Leasehold improvements* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **1 August 2014** | 4,435 | 573 | 880 | 147 | 138 | 3,284 | **9,457** |
| Additions | – | 220 | 59 | 63 | 11 | 449 | **802** |
| Disposals | – | (25) | (65) | (1) | – | (85) | **(176)** |
| Transfer* | 3,648 | – | – | – | – | (3,648) | – |
| **31 December 2014** | **8,083** | **768** | **874** | **209** | **149** | – | **10,083** |
| **Accumulated depreciation** | | | | | | | |
| **1 August 2014** | 325 | 274 | 565 | 97 | 2 | – | **1,263** |
| Depreciation charge | 56 | 48 | 55 | 16 | 1 | – | **176** |
| Disposals | – | (3) | (65) | – | – | – | **(68)** |
| **31 December 2014** | **381** | **319** | **555** | **113** | **3** | – | **1,371** |
| **Net book value:** | | | | | | | |
| **1 August 2014** | **4,110** | **299** | **315** | **50** | **136** | **3,284** | **8,194** |
| **31 December 2014** | **7,702** | **449** | **319** | **96** | **146** | – | **8,712** |

*In September 2014 construction of hotel in Batumi, Adjara region, was finalised and the asset under construction of Centromed, LLC was transferred to Land and Buildings.

*(Thousands of Georgian lari unless otherwise stated)*

## 11. Property and Equipment (continued)

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2013. As at 31 December 2014 the Group analysed market prices for its office buildings and concluded that the market price of premises was not materially different from their carrying value. Refer to Note 4 and 31 for details on fair value measurements of the Group's premises. If the office buildings had been measured using the cost model, the carrying amounts of the office buildings as at 31 December 2014, and 1 August 2014 would have been as follows:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Cost | 8,109 | 4,460 |
| Accumulated depreciation and impairment | (476) | (411) |
| **Net carrying amount** | **7,633** | **4,049** |

## 12. Goodwill and Other Intangible Assets

The movements in goodwill and other intangible assets were as follows:

| | *Goodwill* | *Licenses* | *Computer software* | *Total* |
|---|---|---|---|---|
| **Cost** | | | | |
| **1 August 2014** | 13,063 | 136 | 681 | **13,880** |
| Additions | – | 14 | 192 | **206** |
| **31 December 2014** | **13,063** | **150** | **873** | **14,086** |
| | | | | |
| **Accumulated amortization** | | | | |
| **1 August 2014** | – | 54 | 269 | **323** |
| Amortization charge | – | 13 | 75 | **88** |
| **31 December 2014** | – | **67** | **344** | **411** |
| | | | | |
| **Net book value:** | | | | |
| **1 August 2014** | **13,063** | **82** | **412** | **13,557** |
| **31 December 2014** | **13,063** | **83** | **529** | **13,675** |

The recoverable amount of the total cash-generating unit has been determined based on a value-in-use calculation. The Group used cash flow projections based on financial budget approved by senior management covering from a one to three-year period.

As of 31 December 2014, goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Insurance Company Aldagi - BCI
- Insurance Company Partner, LLC
- JSC Insurance Company Imedi-L international

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will steadily grow and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of all cash-generating units. Discount rates were not adjusted for either a constant or a declining growth rate beyond the two-year period covered in financial budgets. For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating units.

*(Thousands of Georgian lari unless otherwise stated)*

## 12. Goodwill and Other Intangible Assets (continued)

The carrying amount of goodwill allocated to each of the cash-generating units follows:

| | *Effective annual growth rate in three-year financial budgets* | *WACC applied for impairment* | *Carrying amount of goodwill* 31 December 2014 | *Carrying amount of goodwill* 1 August 2014 |
|---|---|---|---|---|
| JSC Insurance Company Aldagi - BCI | 31.07% | 14.54% | 12,299 | 12,299 |
| Insurance Company Partner, LLC | 31.07% | 14.54% | 389 | 389 |
| JSC Insurance Company Imedi L | 31.07% | 14.54% | 375 | 375 |
| **Total :** | | | **13,063** | **13,063** |

## 13. Pension Fund Assets and Liabilities

Effective 2 June 2005, the Group established a private pension scheme. Contributions made by the Group's employees and other individuals are recorded as an accumulated pension liability to be repaid to the pension plan clients after pension age. Also, any income earned on this accumulated pension liability on behalf of the insured individuals will be accumulated and added to the pension benefit obligation. When an employee reaches pension age, aggregated contributions, plus any earnings earned on the employee's behalf are returned to the employee according to the schedule agreed with the employee.

Having collected funds from individuals, the Group conducts investment activities on behalf of these individuals in order to receive additional profit on accumulated amounts. The total net accumulated amount of a single member of the pension plan equals the total net contributions made by him/her, plus any net investment income generated by the funds. Investment activities on behalf of pension plan members and the Group are managed by JSC Insurance Company Aldagi. According to the current arrangement of the plan, the pension age for men and women is 65 and 60 years, respectively.

As of 31 December 2014 and 1 August 2014 pension fund liabilities consisted of:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Total net contributions to the pension fund | 7,458 | 6,951 |
| Total net income earned on net pension fund contributions | 3,831 | 3,675 |
| **Pension Fund Liabilities** | **11,289** | **10,626** |

The movement of pension fund liabilities during 2014 was as follows:

| | *As at 31 December 2014* |
|---|---|
| **Pension fund liabilities as of 1 August** | **10,626** |
| Total pension fund instalments during the year | 1,365 |
| Administration commission | (14) |
| Management commission | (80) |
| Investment income commission | (52) |
| Membership commission | (2) |
| Net income (net of physical persons income tax) | 304 |
| Funds withdrawn by participants | (858) |
| **Total accumulated pension fund during the year** | **663** |
| **Pension fund liabilities as of 31 December** | **11,289** |

*(Thousands of Georgian lari unless otherwise stated)*

## 13. Pension Fund Assets and Liabilities (continued)

Pension fund assets as of 31 December 2014 consist mainly of Cash at bank and deposits with local commercial banks:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Cash at bank | 2,398 | 1,839 |
| Bank deposits | 8,746 | 8,609 |
| Available-for-sale financial assets | 145 | 178 |
| **Pension Fund Assets** | **11,289** | **10,626** |

The Group's Pension Plan is in compliance with the requirements of the insurance regulator on pension liabilities allocation.

The Group has contributed GEL 167 as of 31 December 2014 (1 August 2014: GEL 150) to its employees' defined contribution pension plan.

## 14. Allowances for Impairment and Provisions

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

| | *Insurance and reinsurance receivables (note 7)* | *Other assets (note 15)* | *Total* |
|---|---|---|---|
| **1 August 2014** | **2,114** | – | **2,114** |
| Charge | 281 | (9) | 272 |
| Write-off | (72) | 9 | (63) |
| Currency translation difference | 341 | – | 341 |
| **31 December 2014** | **2,664** | – | **2,664** |

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

## 15. Other Assets

Other assets as of 31 December 2014 and 1 August 2014 comprise:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Advances and prepayments | 988 | 1,112 |
| Trade receivables | 774 | 681 |
| Receivables from regression | 424 | 472 |
| Assets transferred from subrogation | 267 | 330 |
| Inventory | 76 | 36 |
| Prepaid operating taxes | 35 | 18 |
| Other | 90 | 125 |
| | **2,654** | **2,774** |
| Less – Allowance for impairment of other assets (Note 14) | – | – |
| **Total other assets** | **2,654** | **2,774** |

*(Thousands of Georgian lari unless otherwise stated)*

## 16. Equity

As of 31 December 2014 and 1 August 2014 the number of authorized ordinary shares was 1,600,359 with a nominal value per share of one Georgian lari. Authorized shares amount to 1,600,359 at par value of one Georgian lari. All authorized shares have been issued and fully paid.

The share capital of the Group was contributed by the shareholders in Georgian lari and they are entitled to dividends and any capital distribution in Georgian lari. No dividends were declared or paid during the reporting period.

| | *GEL '000* |
|---|---|
| **Share premium** | |
| **At 1 August 2014** | **2,529** |
| Increase in share premium to fund salaries and compensation expenses | 354 |
| **At 31 December 2014** | **2,883** |

The revaluation reserve for office buildings is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in consolidated statement of comprehensive income.

Regulatory capital requirements in Georgia are set by the ISSSG and are applied to JSC Insurance Company Aldagi solely on a stand-alone basis. The ISSSG requirement is to maintain a minimum Capital of GEL 1,500, of which 80% should be kept as cash at bank or bank deposits. Bank confirmation letter is submitted to ISSSG on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement.
JSC Insurance Company Aldagi regularly and consistently complies with the ISSSG regulatory capital requirement.

## 17. Insurance Contract Liabilities and Reinsurance Assets

Insurance contract liabilities and reinsurance assets as of 31 December 2014 and 1 August 2014 comprise:

| | ***As at 31 December 2014*** | ***As at 1 August 2014*** |
|---|---|---|
| **Insurance contracts liabilities** | | |
| - Unearned premiums provision | 20,452 | 24,490 |
| - Claims reserves | 7,534 | 9,399 |
| **Total insurance contracts liabilities** | **27,986** | **33,889** |
| | | |
| **Reinsurance assets** | | |
| - Reinsurers' share in unearned premiums provision | 6,043 | 9,603 |
| - Reinsurers' share in claims reserves | 5,247 | 6,531 |
| **Total reinsurance assets** | **11,290** | **16,134** |
| | | |
| **Insurance contracts liabilities net of reinsurance** | | |
| - Unearned premiums provision | 14,409 | 14,887 |
| - Claims reserves | 2,287 | 2,868 |
| **Total insurance contracts liabilities net of reinsurance** | **16,696** | **17,755** |

*(Thousands of Georgian lari unless otherwise stated)*

## 17. Insurance Contract Liabilities and Reinsurance Assets (continued)

Insurance contract liabilities as of 31 December 2014 and 1 August 2014 comprise:

| | | *As at 31 December 2014* | | | *As at 1 August 2014* | | |
|---|---|---|---|---|---|---|---|
| | ***Notes*** | ***Insurance contracts liabilities*** | ***Reinsurers' share of liabilities*** | ***Net*** | ***Insurance contracts liabilities*** | ***Reinsurers' share of liabilities*** | ***Net*** |
| Life insurance contracts | | 180 | 28 | 152 | 205 | 26 | 179 |
| General insurance contracts | (a) | 27,806 | 11,262 | 16,544 | 33,684 | 16,108 | 17,576 |
| **Total insurance contracts liabilities** | | **27,986** | **11,290** | **16,696** | **33,889** | **16,134** | **17,755** |

(a) General insurance contract liabilities may be analysed as follows. Provision for claims settlement expenses is included in gross insurance contract liabilities.

| | | *As at 31 December 2014* | | | *As at 1 August 2014* | | |
|---|---|---|---|---|---|---|---|
| | ***Notes*** | ***Insurance contracts liabilities*** | ***Reinsurers' share of liabilities*** | ***Net*** | ***Insurance contracts liabilities*** | ***Reinsurers' share of liabilities*** | ***Net*** |
| Outstanding claims reserves | (1) | 7,388 | 5,248 | 2,140 | 9,251 | 6,532 | 2,719 |
| Provision for unearned premiums | (2) | 20,418 | 6,014 | 14,404 | 24,433 | 9,576 | 14,857 |
| **Total general insurance contracts liabilities** | | **27,806** | **11,262** | **16,544** | **33,684** | **16,108** | **17,576** |

(1) The provision for claims reported by policy holders and claims incurred but not yet reported (IBNR) may be analysed as follows:

| | | *As at 31 December 2014* | | |
|---|---|---|---|---|
| | ***Notes*** | ***Insurance contracts liabilities*** | ***Reinsurers' share of liabilities*** | ***Net*** |
| **At 1 August** | | **9,251** | **6,532** | **2,719** |
| Claims incurred during the current accident year | | 4,451 | (148) | 4,599 |
| Claims paid during the year | 26 | (6,314) | (1,136) | (5,178) |
| **At 31 December** | | **7,388** | **5,248** | **2,140** |

*(Thousands of Georgian lari unless otherwise stated)*

## 17. Insurance Contract Liabilities and Reinsurance Assets (continued)

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

| | | *As at 31 December 2014* | | |
|---|---|---|---|---|
| | ***Notes*** | ***Insurance contracts liabilities*** | ***Reinsurers' share of liabilities*** | ***Net*** |
| **At 1 August** | | **24,433** | **9,576** | **14,857** |
| Premiums written during the year | 23 | 17,161 | 4,762 | 12,399 |
| Premiums earned during the year | | (21,176) | (8,324) | (12,852) |
| **At 31 December** | | **20,418** | **6,014** | **14,404** |

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

*(a) Life insurance contracts*

(1) Terms and conditions

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

(2) Key assumptions

Premiums for life insurance contracts are based on rates derived from mortality tables that are developed through actuarial research. 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 Group include cargo, motor, household, property, freight forwarding liability, professional indemnity, financial risk and aviation. Risks under these policies usually cover a 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.

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test we refer to note 3 – Summary of accounting policies, Insurance Contract Liabilities.

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

(3) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis.

The tables show the reserves for both claims reported and claims incurred but not yet reported and cumulative payments.

In the tables below, the claims estimates are translated into Lari at the rate of exchange that applied at the end of the accident year.

*(Thousands of Georgian lari unless otherwise stated)*

## 17. Insurance Contract Liabilities and Reinsurance Assets (continued)

Before the effect of reinsurance, the loss development table is:

| | *2010* | *2011* | *2012* | *2013* | *2014* | *Total* |
|---|---|---|---|---|---|---|
| Accident year | 8,771 | 7,428 | 16,301 | 13,058 | 16,406 | |
| One year later | 8,702 | 7,653 | 14,048 | 12,570 | – | |
| Two years later | 9,421 | 7,593 | 14,021 | – | – | |
| Three years later | 9,399 | 7,556 | – | – | – | |
| Four years later | 9,367 | – | – | – | – | |
| **Current estimate of cumulative claims incurred:** | **9,367** | **7,556** | **14,021** | **12,570** | **16,406** | **59,920** |
| Accident year | (6,665) | (5,700) | (10,733) | (8,867) | (12,268) | |
| One year later | (7,559) | (6,904) | (13,013) | (10,520) | – | |
| Two years later | (7,887) | (7,441) | (13,937) | – | – | |
| Three years later | (7,887) | (7,441) | – | – | – | |
| Four years later | (8,220) | – | – | – | – | |
| **Cumulative payments to date:** | **(8,220)** | **(7,441)** | **(13,937)** | **(10,520)** | **(12,268)** | **(52,386)** |
| **Gross Outstanding Claims provision per the statement of financial position** | **1,147** | **115** | **84** | **2,050** | **4,138** | **7,534** |
| Current Estimation of Surplus/(Deficiency) | (596) | (128) | 2,280 | 488 | | |
| % of Surplus/ (deficiency) of initial gross reserve | -6.80% | -1.72% | 13.99% | 3.74% | | |

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

| | *2010* | *2011* | *2012* | *2013* | *2014* | *Total* |
|---|---|---|---|---|---|---|
| Accident year | 3,937 | 5,788 | 12,355 | 10,337 | 12,857 | |
| One year later | 3,934 | 6,088 | 12,260 | 10,086 | – | |
| Two years later | 4,506 | 6,132 | 12,253 | – | – | |
| Three years later | 4,398 | 6,090 | – | – | – | |
| Four years later | 4,346 | – | – | – | – | |
| **Current estimate of cumulative claims incurred:** | **4,346** | **6,090** | **12,253** | **10,086** | **12,857** | **45,632** |
| Accident year | (3,037) | (5,055) | (9,865) | (8,172) | (10,963) | |
| One year later | (3,869) | (5,979) | (11,896) | (9,806) | – | |
| Two years later | (4,074) | (6,055) | (12,175) | – | – | |
| Three years later | (4,013) | (6,055) | – | – | – | |
| Four years later | (4,346) | – | – | – | – | |
| **Cumulative payments to date:** | **(4,346)** | **(6,055)** | **(12,175)** | **(9,806)** | **(10,963)** | **(43,345)** |
| **Net Outstanding Claims provision per the statement of financial position** | **–** | **35** | **78** | **280** | **1,894** | **2,287** |
| Current Estimation of Surplus/(Deficiency) | (409) | (302) | 102 | 251 | | |
| % of Surplus/ (deficiency) of initial gross reserve | -10.39% | -5.22% | 0.83% | 2.43% | | |

*(Thousands of Georgian lari unless otherwise stated)*

## 18. Derivative Financial Liabilities

On 1 November 2014, the Group entered into foreign exchange forward contract with JSC My Family Clinic. Notional amount for the active contract is USD 17.3 million. As at 31 December 2014, fair value of the derivative financial liability is GEL 1,768.

## 19. Other Insurance Liabilities

Other insurance liabilities as of 31 December 2014 and 1 August 2014 include:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Reinsurance payables | 11,802 | 15,705 |
| Advances received | 3,310 | – |
| Claims payable | 237 | 709 |
| **Other insurance liabilities** | **15,349** | **16,414** |

As at 31 December 2014 Advances received consist of prepayments made by state on agricultural insurance policies that commence in January 2015. This new agricultural insurance programme was initiated by the Ministry of Agriculture and was launched in September 2014. State subsidies are defined up to 60%.

## 20. Borrowings

As at 31 December 2014 borrowings comprised GEL 2,930 (1 August 2014: GEL 3,618). The bank loans have an average interest rate of 12.2% per annum (1 August 2014: 12.63%), maturing on average in 991 days (1 August 2014: 1,353 days). Some long-term borrowings from credit institutions are received upon certain conditions that the Group maintains different limits for leverage, capital investments, minimum amount of immovable property and others – financial covenants. The Group has pledged Land and Building of its subsidiary company Centromed LLC to fulfil collateral requirements. At 31 December 2014 the Group complied with all the covenants of the borrowings.

## 21. Other Liabilities

Other liabilities as of 31 December 2014 and 1 August 2014 comprise:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Accruals for employee compensation | 2,250 | 960 |
| Trade Payables | 309 | 305 |
| Operating taxes payable | 58 | 5 |
| Other | 954 | 299 |
| **Other liabilities** | **3,571** | **1,569** |

*(Thousands of Georgian lari unless otherwise stated)*

## 22. Commitments and Contingencies

### Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

### 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 Group 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 five calendar years proceeding 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 Group's tax, currency and customs positions will be sustained.

### Financial commitments and contingencies

As of 31 December 2014 and 1 August 2014, the Group's financial commitments and contingencies comprised the following:

| | *As at 31 December 2014* | *As at 1 August 2014* |
|---|---|---|
| Operating lease commitments: | | |
| -Not later than 1 year | 473 | 634 |
| -Later than 1 year but not later than 5 years | 202 | 254 |
| **Financial commitments and contingencies** | **675** | **888** |

*(Thousands of Georgian lari unless otherwise stated)*

## 23. Net Insurance Revenue

Net insurance revenue comprises:

| | *Notes* | *Five months ended 31 December 2014* |
|---|---|---|
| Premiums written on general insurance contracts | 17 | 17,161 |
| Premiums written on life insurance contracts | | 1,657 |
| **Total written premiums** | | **18,818** |
| Gross change in life provision | | 23 |
| Gross change in unearned premium provision | | 4,015 |
| **Total gross earned premiums on insurance contracts** | | **22,856** |
| Reinsurers' share of life insurance contracts premium revenue, | | (208) |
| Reinsurers' share of general insurance contracts premium revenue, direct | 17 | (4,762) |
| Reinsurers' share of change in life provision | | 2 |
| Reinsurers' share of change in general insurance contracts unearned premium provision | | (3,562) |
| **Total reinsurers' share of gross earned premiums on insurance contracts** | | **(8,530)** |
| **Net insurance revenue** | | **14,326** |

## 24. Interest Income and Interest Expense

Interest income and interest expense from financial instruments comprises:

| | *Five months ended 31 December 2014* |
|---|---|
| **Interest Income** | |
| Amounts Due from credit institutions | 395 |
| Loan issued | 109 |
| **Interest Income** | **504** |
| **Interest expense** | |
| Borrowings | **(155)** |

## 25. Other Operating Income

Other operating income comprises:

| | *Five months ended 31 December 2014* |
|---|---|
| **Other operating income** | |
| Reinsurance commission | 382 |
| Revenue from pension fund | 147 |
| Income from rent of office space | 9 |
| Other | 209 |
| **Total other operating income** | **747** |

*(Thousands of Georgian lari unless otherwise stated)*

## 26. Net Insurance Claims Incurred

Net insurance claims incurred comprise:

| | *Notes* | *Five months ended 31 December 2014* |
|---|---|---|
| General insurance claims paid | 17 | (6,314) |
| Life insurance claims paid | | (536) |
| **Total insurance claims paid** | | **(6,850)** |
| Reinsurers’ share of life claims paid | | 98 |
| Reinsurers' share of general claims paid | 17 | 1,136 |
| Gross change in total insurance contract liabilities | | 1,865 |
| Reinsurers' share of change in total insurance contract liabilities | | (1,284) |
| **Net insurance claims incurred** | | **(5,035)** |

## 27. Acquisition Costs, Net of Reinsurance

Acquisition costs, net of reinsurance comprise:

| | *Five months ended 31 December 2014* |
|---|---|
| Acquisition costs | (2,347) |
| Acquisition costs deferred (note 10) | 822 |
| Amortization of deferred acquisition costs (note 10) | (111) |
| **Total Acquisition costs** | **(1,636)** |

## 28. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

| | *Five months ended 31 December 2014* |
|---|---|
| Salaries | (1,568) |
| Bonuses | (732) |
| Insurance and other benefits | (58) |
| Share-based compensation | (381) |
| **Salaries and other employee benefits** | **(2,739)** |

*(Thousands of Georgian lari unless otherwise stated)*

## 29. General and Administrative Expenses

General and administrative expenses comprise:

| | *Five months ended 31 December 2014* |
|---|---|
| Legal and consultancy | (388) |
| Representative | (317) |
| Occupancy and rent | (267) |
| Marketing and advertising | (150) |
| Operating taxes | (131) |
| Utilities | (73) |
| Communications | (68) |
| Office supplies | (62) |
| Business travel and related | (28) |
| Bank fees and commissions | (26) |
| Repair and maintenance of property and equipment | (12) |
| Personnel training | (9) |
| Printing | (7) |
| Security | (3) |
| Other | (183) |
| **Total general and administrative expenses** | **(1,724)** |

## 30. Risk Management

The activities of the Group are exposed to various risks. Risk management therefore is a critical component of its insurance activities. Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls. Each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Company's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates 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 Group's risk and financial management framework is to protect the Group from events that hinder the sustainable achievement of the Group's performance objectives, including failing to exploit opportunities. The Group recognizes the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference for the Board, its committees and the associated executive management committees. Further a clear organization structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior managers has been developed. Lastly, a Group policy framework which sets out the risk appetite of the Group, risk management, control and business conduct standards for the Group's worldwide operations has been put in place. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Group.

The Board has approved the Group risk management policies and meets regularly to approve on any commercial, regulatory and own organizational requirements in such policies. The policies define the Group'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.

*(Thousands of Georgian lari unless otherwise stated)*

## 30. Risk Management (continued)

### Capital management objectives

The Group 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 Group 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.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.

The operations of the Group 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 Group's capital management policy for its insurance and non-insurance business is to hold sufficient liquid assets to cover statutory requirements based on the ISSSG directives.

### Approach to capital management

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

The Group'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 Group.

### Insurance risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims.

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

The Group 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 net interest income and foreign exchange and translation losses divided by net insurance revenue. The Group's loss ratios and combined ratios calculated on a net basis were as follows:

| | ***2014*** |
|---|---|
| Loss ratio | 35% |
| Combined ratio | 77% |

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

*(Thousands of Georgian lari unless otherwise stated)*

## 30. Risk Management (continued)

**Insurance risk (continued)**

### (1) Life insurance contracts

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

The Group'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 Group 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 Group to pursue third parties for payment of some or all cost. The Group 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 Group.

Currently, insured risks do not vary significantly in relation to the location of the risk insured by the Group 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 Group wide reinsurance limit of GEL 5,000 on all high risk individuals insured is in place.

Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia. Gross claims liabilities and net claims liabilities at 31 December 2014 on life insurance contracts is GEL 180 and GEL 152, respectively.

### (2) General insurance contracts

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

For general insurance contracts the most significant risks arise from climate changes and natural disasters.

These risks vary significantly in relation to the location of the risk insured by the Group, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

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

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

*(Thousands of Georgian lari unless otherwise stated)*

## 30. Risk Management (continued)

### Insurance risk (continued)

### (2) General insurance contracts (continued)

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

| | *As at 31 December 2014* | | |
|---|---|---|---|
| | ***Gross claims liabilities*** | ***Reinsurers share of claims liabilities*** | ***Net claims liabilities*** |
| Motor | 10,037 | 46 | 9,991 |
| Property | 12,285 | 7,939 | 4,346 |
| Guarantees | 2,451 | 1,628 | 823 |
| Liability | 2,669 | 1,610 | 1,059 |
| Cargo | 364 | 39 | 325 |
| | **27,806** | **11,262** | **16,544** |

For general insurance contracts, the most significant risks arise from changes in loss frequency and loss severity in motor insurance. These risks vary significantly in relation to the location of the risk insured by the Group, 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 and geographical areas, 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 Group 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 Group 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 Group.

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 statement of financial position as reinsurance assets.

Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia.

*(Thousands of Georgian lari unless otherwise stated)*

## 30. Risk Management (continued)

### 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 Group 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 Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract. The highest single counterparty exposure is 28% of total reinsurance assets at the reporting date. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

***Loans and receivables***

The Group 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 or trust deed 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 Group through internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Group's credit rating system.

| | *Notes* | *Neither past due nor impaired as at 31 December 2014* | *Past-due but not impaired as at 31 December 2014* | *Total as at 31 December 2014* |
|---|---|---|---|---|
| Bank Deposits | 6 | 12,655 | – | **12,655** |
| Loan Issued | 8 | 5,216 | – | **5,216** |
| **Total** | | **17,871** | **–** | **17,871** |

The Group does not have a credit rating system to evaluate credit quality of either past due or impaired financial assets.

*(Thousands of Georgian lari 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 Group is the daily calls on its available cash resources in respect of claims arising from insurance contracts and the maturity of debt securities.

The Group manages liquidity through a Group liquidity risk policy which determines what constitutes liquidity risk for the Group; 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; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; 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 Group into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

| **31 December 2014** | ***Within one year*** | ***More than one year*** | ***Total*** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 2,688 | – | **2,688** |
| Bank Deposits | 11,429 | 1,226 | **12,655** |
| Insurance and reinsurance receivables | 17,822 | 6 | **17,828** |
| Loan issued | 2,328 | 2,888 | **5,216** |
| Reinsurance assets | 9,388 | 1,902 | **11,290** |
| Deferred acquisition costs | 1,348 | 70 | **1,418** |
| Pension Fund Assets | – | 11,289 | **11,289** |
| Other assets | 2,258 | 396 | **2,654** |
| **Total assets** | **47,261** | **17,777** | **65,038** |
| **Liabilities:** | | | |
| Insurance contract liabilities | 24,608 | 3,378 | **27,986** |
| Derivative financial liabilities | 1,768 | – | **1,768** |
| Other insurance liabilities | 12,608 | 2,741 | **15,349** |
| Borrowings | 2,156 | 774 | **2,930** |
| Pension fund liabilities | – | 11,289 | **11,289** |
| Other liabilities | 3,571 | – | **3,571** |
| **Total liabilities** | **44,711** | **18,182** | **62,893** |
| **Net position** | **2,550** | **(405)** | **2,145** |
| **Accumulated gap** | **2,550** | **2,145** | |

*(Thousands of Georgian lari unless otherwise stated)*

## 30. Risk Management (continued)

### Financial risk (continued)

### (2) Liquidity risk (continued)

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

In management's opinion, liquidity is sufficient to meet the Group's present requirements.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

| **Borrowings as at 31 December 2014** | ***Less than 3 months*** | ***3 to 12 months*** | ***1 to 5 years*** | ***over 5 years*** | ***Total*** |
|---|---|---|---|---|---|
| Borrowings | 557 | 1,758 | 810 | – | **3,125** |
| Derivative financial liabilities | – | 1,768 | – | – | **1,768** |
| **Total undiscounted borrowings** | **557** | **3,526** | **810** | – | **4,893** |

### 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 Group structures levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group; 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 group 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.

*Currency risk*

The Group 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 significant part of the Company's operations.

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment 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.

*(Thousands of Georgian lari unless otherwise stated)*

## 30. Risk Management (continued)

### Market risk (continued)

*Currency risk (continued)*

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2014 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 income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

| | *As at 31 December 2014* | | | |
|---|---|---|---|---|
| | ***GEL*** | ***USD*** | ***EUR*** | ***Total*** |
| **Assets:** | | | | |
| Cash and cash equivalents | 2,381 | 10 | 297 | **2,688** |
| Bank Deposits | 11,029 | 1,626 | – | **12,655** |
| Loans Issued | 2,950 | 2,266 | – | **5,216** |
| Insurance and reinsurance receivables | 2,477 | 15,149 | 202 | **17,828** |
| Reinsurance assets | 6,103 | 5,187 | - | **11,290** |
| **Total assets** | **24,940** | **24,238** | **499** | **49,677** |
| **Liabilities:** | | | | |
| Insurance contract liabilities | 21,404 | 6,582 | – | **27,986** |
| Derivative financial liabilities | 1,768 | – | – | **1,768** |
| Other insurance liabilities | 3,647 | 11,508 | 194 | **15,349** |
| Borrowings | 30 | 2,900 | – | **2,930** |
| Other liabilities | 3,279 | 226 | 66 | **3,571** |
| **Total liabilities** | **30,128** | **21,216** | **260** | **51,604** |
| **Net position** | **(5,188)** | **3,022** | **239** | **(1,927)** |
| **Increase in currency rate in %** | | **23.4%** | **6.5%** | |
| **Effect on profit** | | **708** | **16** | |
| **Decrease in currency rate in %** | | **-23.4%** | **-6.5%** | |
| **Effect on profit** | | **(708)** | **(16)** | |

Foreign currencies represent mainly US Dollar and Euro amounts, but also include currencies from other OECD countries. The Group'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 Group's US Dollar denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realize investments in non-monetary assets as measured in USD in these financial statements.

*(Thousands of Georgian lari unless otherwise stated)*

## 31. Fair Values Measurements

### Fair value hierarchy

The following tables show analysis of assets and liabilities measured at fair value or for which fair values are disclosed by level of the fair value hierarchy:

| | *Level 1* | *Level 2* | *Level 3* | *Total as at 31 December 2014* |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Office buildings | – | – | 7,702 | **7,702** |
| **Assets for which fair values are disclosed** | | | | |
| Cash and cash equivalents | 2,688 | – | – | **2,688** |
| Bank deposits | – | 12,655 | – | **12,655** |
| Loan Issued | – | – | 5,216 | **5,216** |
| Pension Fund Assets | 2,543 | 8,746 | – | **11,289** |
| **Liabilities measured at fair value** | | | | |
| Derivative Financial liabilities | – | 1,768 | – | **1,768** |
| **Liabilities for which fair values are disclosed** | | | | |
| Borrowings | – | – | 2,930 | **2,930** |

The following is a description of the determination of fair value for financial instruments and property which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

*Derivative Financial Liabilities*

Derivative Financial Liabilities consist of foreign exchange forward contract used to manage Group's exposure to fluctuations in foreign currency exchange rates. Inputs used to determine fair value of the derivative liability are foreign exchange rates and are all directly observable on the active market.

*Office Buildings*

Office buildings at fair value consist of land and office buildings, for which fair value is derived by some of the inputs which are not based on observable market data.

*(Thousands of Georgian lari unless otherwise stated)*

## 31. Fair Values Measurements (continued)

## Fair value hierarchy (continued)

*Description of significant unobservable inputs to valuation:*

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2014 are as shown below:

**Level 3 property at fair value**

| | As at 31 December 2014 | Valuation technique | Significant unobservable inputs | Amount Range | Other key information | Area Range | Sensitivity of the input to fair value |
|---|---|---|---|---|---|---|---|
| **Office Buildings** | **7,702** | | | | | | |
| | 3,652 | Market approach | Price per square metre | 779 - 5,311 | Square metres, building | 68 - 593 | 10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 386 |
| | 4,050 | Cost approach | Replacement cost per square metre | 1,846 | Square metres, building | 1,609 | 10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 297 |
| | | | Developers' profit margin | 10% | | | 1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 30 |
| | | | Land price per square metre | 388 | Square metres, land | 1,085 | 10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 42 |

*(Thousands of Georgian lari unless otherwise stated)*

## 31. Fair Values Measurements (continued)

### Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

| | Carrying Value as at 31 December 2014 | Fair Value as at 31 December 2014 | Unrecognized gain (loss) 2014 |
|---|---|---|---|
| **Financial Assets** | | | |
| Cash and cash Equivalents | 2,688 | 2,688 | – |
| Bank deposits | 12,655 | 12,655 | – |
| Loans issued | 5,216 | 5,216 | – |
| Pension fund assets | 11,289 | 11,289 | – |
| **Financial Liabilities** | | | |
| Borrowings | 2,930 | 2,930 | – |
| **Total unrecognized change in unrealized fair value** | | | – |

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements.

### Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to variable rate financial instruments. The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

The fair value of loans issued and borrowings carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

*(Thousands of Georgian lari unless otherwise stated)*

## 32. 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. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

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

| | *As at 31 December 2014* | |
|---|---|---|
| | ***Parent*** | ***Entities under common control**** |
| ***Assets:*** | | |
| Cash and cash equivalents | 2,417 | – |
| Bank deposits | 2,563 | – |
| Insurance and reinsurance receivables | 380 | 303 |
| Pension Fund Assets | 1,790 | – |
| Other assets | 140 | 148 |
| Loan Issued | – | 2,947 |
| | **7,290** | **3,398** |
| ***Liabilities:*** | | |
| Borrowings | 1,181 | – |
| Derivative financial liabilities | – | 1,768 |
| Other liabilities | 136 | 640 |
| | **1,317** | **2,408** |

| | *Five months ended 31 December 2014* | |
|---|---|---|
| | ***Parent*** | ***Entities under common control**** |
| ***Income and expenses:*** | | |
| Insurance premium earned | 1,652 | 321 |
| Interest income on current and deposit accounts in banks | 61 | – |
| Interest Income on loans | – | 39 |
| Other operating income | – | 40 |
| General and administrative expenses | (215) | – |
| Acquisition costs, net of reinsurance | (34) | (12) |
| Interest expense on borrowings | (66) | – |
| Salaries and other employee benefits | – | (26) |
| Foreign exchange and translation loses | – | (2,299) |
| | **1,398** | **(1,937)** |

*Entities under common control include Bank of Georgia Holdings plc subsidiaries.

Compensation of key management personnel (2014: 11 persons) comprised the following:

| | ***Five months ended 31 December 2014*** |
|---|---|
| Salaries and bonuses | 704 |
| Share-based payments compensation | 381 |
| **Total key management compensation** | **1,085** |

*(Thousands of Georgian lari unless otherwise stated)*

## 33. Events after the reporting period

### Acquisition of Insurance Company Tao LLC

In May 2015, the Group completed the acquisition of shares in Insurance Company Tao LLC, an insurance company operating in Georgia. Total consideration given for the acquisition was GEL 4,150.

Initial purchase accounting is currently in progress and not all of the asset valuations and accounting estimates are formally finalised. Therefore, management considers a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2015 annual financial statements.