JSC Insurance Company Aldagi Group

Consolidated financial statements

for the year ended 31 December 2016
together with independent auditor's report

Contents

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Independent auditor's report

To the Shareholders and Supervisory Board of JSC Insurance company Aldagi

Report on the Financial Statements

Opinion

We have audited the 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 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management Board and Supervisory Board for the financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Supervisory Board is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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Report on Supplementary Financial Information

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements of the Group taken as a whole. The consolidating schedules accompanying the consolidated financial statements which has been disclosed as supplementary financial information in the Appendix to the consolidated financial statements is presented for purposes of additional analysis as requested by Insurance State Supervision Service of Georgia and is not within the scope of IFRS. Such supplementary financial information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, has been properly prepared, in all material respects, in relation to the Group's consolidated financial statements taken as whole.

Ruslan Khoroshvili

On behalf of EY Georgia LLC

Tbilisi, Georgia

29 March 2017

Consolidated statement of financial position
As at 31 December 2016
(Thousands of Georgian lari)

	Notes	*2016*	*2015*	*As at 1 January 2015*
Assets				
Cash and cash equivalents	6	4,349	2,735	2,688
Bank deposits	7	24,928	17,983	12,655
Available-for-sale financial assets	8	3,389	2,583	–
Insurance and reinsurance receivables	9	23,008	17,878	17,828
Loan issued	10	–	5,235	5,216
Reinsurance assets	20	13,161	13,826	11,290
Current income tax assets		273	299	82
Deferred income tax assets	11	1,080	1,445	701
Deferred acquisition costs	12	2,673	1,915	1,418
Investment property	13	845	–	–
Property and equipment	14	9,139	8,548	8,712
Goodwill and other intangible assets	15	14,472	14,248	13,675
Pension fund assets	16	16,441	13,706	11,289
Other assets	18	2,767	2,963	2,654
Total assets		**116,525**	**103,364**	**88,208**
Equity				
Share capital	19	1,889	1,889	1,600
Additional paid-in capital		6,987	6,987	2,883
Other reserves		421	358	85
Retained earnings		30,450	23,808	20,220
Total equity		**39,747**	**33,042**	**24,788**
Liabilities				
Insurance contract liabilities	20	41,542	37,964	27,986
Derivative financial liabilities	21	1,144	–	1,768
Other insurance liabilities	22	9,597	9,477	15,349
Current income tax liabilities		1,363	663	527
Borrowings		–	–	2,930
Pension fund liability	16	16,441	13,706	11,289
Other liabilities	23	6,691	8,512	3,571
Total liabilities		**76,778**	**70,322**	**63,420**
Total equity and liabilities		**116,525**	**103,364**	**88,208**

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

Giorgi Baratashvili — General Director

Lasha Khakhutaishvili — Financial Director

29 March 2017

The accompanying notes on pages 6 to 59 are an integral part of these consolidated financial statements.

Consolidated income statement
For the year ended 31 December 2016
(Thousands of Georgian lari)

	Notes	*2016*	*2015*
Gross earned premiums on insurance contracts		71,031	67,831
Reinsurers' share of gross earned premiums on insurance contracts		(20,640)	(21,289)
Net insurance revenue	25	**50,391**	**46,542**
Interest income	26	3,146	2,221
Other operating income	27	1,751	1,624
Other revenue		**4,897**	**3,845**
Total revenue		**55,288**	**50,387**
Gross insurance benefits and claims paid		(27,383)	(24,896)
Reinsurers' share of gross insurance benefits and claims paid		7,912	4,969
Gross change in insurance contracts liabilities		781	(5,016)
Reinsurers' share of gross change in insurance contracts liabilities		(532)	2,772
Claim settlement expenses		(780)	(545)
Income from regress and salvages		1,899	2,615
Net insurance claims	28	**(18,103)**	**(20,101)**
Acquisition costs, net of reinsurance	29	(6,457)	(5,853)
Salaries and other employee benefits	30	(8,427)	(6,985)
General and administrative expenses	31	(3,123)	(3,026)
Depreciation and amortization expenses	14,15	(774)	(833)
Impairment charge	17	(888)	(919)
Interest expense	26	–	(71)
Foreign exchange losses		(295)	(7,618)
Other operating expenses	32	(141)	(727)
Other expenses		**(20,105)**	**(26,032)**
Total claims and expenses		**(38,208)**	**(46,133)**
Income before tax		**17,080**	**4,254**
Income tax expense	11	(3,318)	(666)
Net income		**13,762**	**3,588**

The accompanying notes on pages 6 to 59 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2016
(Thousands of Georgian lari)

	Notes	***2016***	***2015***
Net Income for the year		**13,762**	**3,588**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property, plant and equipment	14	–	321
Income tax effect		63	(48)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**63**	**273**
Other comprehensive income for the year, net of tax		**63**	**273**
Total comprehensive income for the year, net of tax		**13,825**	**3,861**

The accompanying notes on pages 6 to 59 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016
(Thousands of Georgian lari)

	Share capital	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Total equity*
1 January 2015	**1,600**	**2,883**	**85**	**20,220**	**24,788**
Net income for the year	–	–	–	3,588	**3,588**
Other comprehensive income	–	–	273	–	**273**
Total comprehensive income	**–**	**–**	**273**	**3,588**	**3,861**
Equity contribution	–	243	–	–	**243**
Issue of share capital (Note 19)	289	3,861	–	–	**4,150**
31 December 2015	**1,889**	**6,987**	**358**	**23,808**	**33,042**
Net income for the year	–	–	–	13,762	**13,762**
Other comprehensive income	–	–	63	–	**63**
Total comprehensive income	**–**	**–**	**63**	**13,762**	**13,825**
Dividends to shareholders (Note 19)	–	–	–	(7,120)	**(7,120)**
31 December 2016	**1,889**	**6,987**	**421**	**30,450**	**39,747**

The accompanying notes on pages 6 to 59 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2016
(Thousands of Georgian lari)

	Notes	2016	2015
Cash flows from operating activities			
Insurance premium received		65,731	59,101
Reinsurance premium paid		(14,346)	(13,283)
Insurance benefits and claims paid		(25,810)	(22,247)
Reinsurance claims received		5,999	3,856
Acquisition costs paid		(5,832)	(4,550)
Salaries and benefits paid		(9,184)	(7,590)
Interest received		1,306	1,338
Interest paid		–	(113)
Operating taxes paid		(267)	(132)
Other operating income received		1,261	1,560
Other operating expenses paid		(2,850)	(3,982)
Net cash flows from operating activities before income tax		**16,008**	**13,958**
Income tax paid		(2,129)	(1,545)
Net cash flows from operating activities		**13,879**	**12,413**
Cash flows used in investing activities			
Acquisition of subsidiary, net of cash acquired		–	(3,893)
Purchase of premises and equipment		(1,040)	(335)
Purchase of intangible assets		(455)	(578)
Loan issued	19	(7,000)	(4,064)
Proceeds from repayment of loan issued		1,901	5,117
Settlement of forward agreements		–	(7,165)
Placement of / (proceeds from) bank deposits		(5,161)	46
Purchase of available-for-sale assets		(531)	(2,399)
Net cash flows from used in investing activities		**(12,286)**	**(13,271)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	4,150
Proceeds from borrowings		–	2,000
Repayment of borrowings		–	(5,182)
Net cash flows from financing activities		**–**	**968**
Effect of exchange rates changes on cash and cash equivalents		21	(63)
Net increase in cash and cash equivalents		1,614	47
Cash and cash equivalents, 1 January	6	2,735	2,688
Cash and cash equivalents, 31 December	6	**4,349**	**2,735**

The accompanying notes on pages 6 to 59 are an integral part of these 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"). 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 State Supervision Service 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 seven additional service centers in Tbilisi, Batumi, Poti, Kutaisi, Zugdidi, Telavi and Gori. 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 2016***	***31 December 2015***	***As at 1 January 2015***	***Date of incorporation***	***Industry***	***Date of acquisition***
Aliance, LLC	100%	100%	100%	1 March 2000	Other	30 April 2012
Green Way, LLC	100%	100%	100%	27 December 2010	Services	30 April 2012
Premium Residence, LLC	100%	100%	100%	9 July 2010	Tourism & Hospitality	30 April 2012
JSC Insurance Company Tao	100%	100%	–	22 August 2007	Insurance	1 May 2015

As at 31 December 2016 the Group was 100% owned by JSC BG Financial (2015: 100% owned by JSC BG Financial, 1 January 2015: 85% owned by JSC Bank of Georgia and 15% owned by JSC Galt and Taggart Holding). As at 31 December 2016, 2015 and 1 January 2015, the Group's ultimate parent is BGEO Group plc (formerly known as Bank of Georgia Holdings plc). BGEO Group plc is incorporated in the United Kingdom and listed on the London Stock Exchange.

2. Basis of preparation

General

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements for the year ended 31 December 2016 are the first the Group has prepared in accordance with IFRS since the date of reorganization.

For all pre-split periods up to and including the year ended 31 December 2013, the Group prepared its financial statements in accordance with IFRS. For the five months ended 31 December 2014 and for the year ended 31 December 2015, special purpose consolidated financial statements were prepared in accordance with requirements of regulator – Insurance State Supervision Service of Georgia (ISSSG). Group's accounting policies applied in preparation of those special purpose consolidated financial statements were developed based on IFRS as issued by IASB, except for the cases when the Group applied specific accounting policies to comply with the requirements of the ISSSG.

(Thousands of Georgian lari unless otherwise stated)

2. Basis of preparation (continued)

General (continued)

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"), 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.

First-time adoption of IFRS

Under the requirements of ISSSG, special purpose consolidated financial statements of the Group for the period ended 31 December 2014 covered 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.

Difference between Group's accounting policies applied in preparation of special purpose consolidated financial statements for the year ended 31 December 2015 and IFRS was the absence of full year comparative consolidated income statement, consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows, and respective explanatory notes. Instead, these comparative consolidated statements and respective notes covered the post-split period only – for five month period starting from 1 August 2014 to 31 December 2014. Thus no adjustments on equity or net income were needed and made to restate either comparative period data for the year ended 31 December 2015, or the Group's opening statement of financial position as at 1 January 2015, the Group's date of transition to IFRS.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016 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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations, including common control business combinations, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in other operating expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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 (for common control business combinations the gain is recognised as equity contribution).

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.

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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised 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 profit or loss.

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised 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 using a range of standard actuarial claim projection techniques, 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 income statement by setting up a provision for premium deficiency.

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 income statement. The reinsurers' share of each unexpired risk provision is recognised on the same basis. Reinsurance assets are derecognised 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 recognised as an expense when incurred. Acquisition costs deferred consist of commissions to sales agents and brokerage companies assisting in policy issuance.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

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 recognised 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 recognised 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 recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

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

Available-for-sale financial assets

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

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 recognised 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 recognised in the consolidated income statement.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Allowances for impairment of loans and receivables (continued)

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 recognised 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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, 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 income statement.

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 derecognised 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 recognised 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 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)

Fair value measurement

The Group measures financial instruments, such as derivatives and certain non-financial assets such as office buildings, investment property, at fair value at the end of each reporting period. Fair values of financial instruments measured at amortised cost are disclosed in Note 34.

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.

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 recognised in the consolidated 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.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented as net gains or losses from revaluation of investment properties.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Investment properties (continued)

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

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 recognised in the consolidated income statement 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 income statement, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated statement of comprehensive income. A revaluation deficit is recognised in the consolidated income statement, 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.

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

Assets under construction 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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Pension fund assets and liabilities

The Group provides management and employees of the Group, management and employees of the former parent of the Group (now entity under common control) – 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 under IAS 39 at amortized cost or fair value, depending on classification made at initial recognition. The Group does not guarantee any investment income to the participants of the investment plan.

Borrowings

Borrowings are initially recognised 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.

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 (applicable to undistributed profits) 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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

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 recognised 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 recognised as an expense as incurred.

Provisions and contingent liabilities

Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is more probable than not.

Contingent liabilities are not recognised 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 recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of the Group’s ultimate parent, BGEO Group plc. Grants are made and settled by the Group itself and are treated as cash-settled transactions.

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 recognised in employee benefits expense.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

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 recognised as additional paid-in capital.

Dividends

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

Income and expense recognition

Premium written

Insurance premiums written are recognised 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 recognised 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 income statement in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

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 any part of the general administrative costs directly attributable to the claims function.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

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 recognised in the consolidated income statement as gains less losses from foreign currencies – foreign exchange losses

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 foreign exchange losses. The official NBG exchange rates at 31 December 2016, 31 December 2015 and 31 December 2014 were 2.6468, 2.3949 and 1.8636 Georgian lari to 1 US dollar, respectively.

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 income statement in foreign exchange losses.

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements which may have impact on the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective. Management does not expect application of other new standards and interpretations to have significant impact on financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The group is currently assessing the impact of IFRS 9 in order to decide between adopting the new standard from the effective date or deferring the application of IFRS 9 until the earlier of the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Group is currently assessing the impact of temporary exemption in its reporting period starting on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 from 1 January 2017 using modified retrospective approach. Given insurance contracts that contribute majority of the Group’s revenue are scoped out of IFRS 15, the Group does not expect the impact to be significant.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statement.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 *Leases* with an effective date of annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. IFRS 16 can be adopted using either a full retrospective or a modified retrospective approach. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognise a “right of use” asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessees must apply a single model for all recognized leases, but will have the option not to recognize ‘short-term’ leases and leases of ‘low-value’ assets. Lessor accounting remains substantially the same as in IAS 17. The Group does not anticipate early adoption of IFRS 16 and is currently assessing the impact of IFRS 16 on its financial statements.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, The Group will need to disclose changes in its financial liabilities as a result of financing activities such as changes from cash flows and non-cash items. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

IFRS 2 Share-based Payments

On 20 June 2016, the IASB issued amendments to IFRS 2 *Share Based Payment* that clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

Annual improvements 2014-2016 cycle

The improvements to IAS 28 are effective for annual periods beginning on or after 1 January 2018 and the improvements to IFRS 12 for annual periods beginning on or after 1 January 2017.

IFRS 12 Disclosure of Interests in Other Entities

The amendment clarifies the scope of the standard by specifying that when an entity's interest in subsidiary, a joint arrangement (or a portion of its interest in a joint venture or an associate) is classified as asset held for sale or as held for distribution to owners in accordance with IFRS 5, the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate in accordance with IFRS 12. This improvement is not expected to have any impact on the Group.

IAS 28 Investments in Associates and Joint Ventures

The amendment clarifies that the election to measure an investment in as associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, at fair value through profit or loss, is available for each investment in as associate or joint venture on an investment by investment basis, upon initial recognition. This improvement is not expected to have any impact on the Group.

4. Significant accounting judgments, estimates and assumptions

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.

(Thousands of Georgian lari unless otherwise stated)

4. Significant accounting judgments, estimates and assumptions (continued)

Estimation uncertainty (continued)

The ultimate cost of IBNR is estimated by using a range of standard actuarial claims projection techniques, such as Bornhuetter-Ferguson and Stochastic Claims Reserving methods. Probabilistic approach – Stochastic model is used for estimating IBNR in Casco Insurance through Monte Carlo Simulation based on historical claims statistics. For other types of insurance, Bornhuetter-Ferguson technique is used – the main assumption underlying this technique is that a company's past claims development experience combined with expected loss ratios can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed monthly development of past year and expected loss ratios.

The carrying value of insurance claims provisions as at 31 December 2016 was GEL 12,173 (2015: GEL 12,954; 1 January 2015: GEL 7,534). For more details on insurance claims provisions please refer to Note 20.

Allowance for impairment of insurance receivables and reinsurance receivables

The Group regularly reviews its insurance and reinsurance 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 and reinsurance receivables as at 31 December 2016 was GEL 7,204 (2015: GEL 5,474; 1 January 2015: GEL 2,664). For further details on allowance for impairment of insurance receivables and reinsurance receivables are disclosed in Note 9 and 17.

Recoverability 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 2016, 31 December 2015 and 1 January 2015. The key assumptions used to determine carrying amount of goodwill are provided in Note 15.

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.

The date of latest revaluation is 31 December 2015. For more details on measurement fair value of the office buildings please refer to Note 34.

(Thousands of Georgian lari unless otherwise stated)

5. Business combination

Acquisitions in 2015

JSC Insurance Company Tao

On 1 May 2015 JSC Insurance Company Aldagi (“Acquirer”) acquired 100% stake in JSC Insurance Company Tao (“Acquiree”), an insurance company operating in Georgia, from JSC PrivatBank – entity under common control. The fair values of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	257
Bank deposits	4,961
Insurance premiums receivable, net[1]	615
Property and equipment	2
Goodwill and other intangible assets	1
Other assets	10
Total assets	**5,846**
Liabilities	
Insurance contract liabilities	1,252
Other insurance liabilities	435
Current income tax liabilities	62
Other liabilities	239
Total liabilities	**1,988**
Fair value of assets	**3,858**
Minority interest	–
Goodwill arising on acquisition	–
Additional equity contribution	(243)
Total consideration[2]	**3,615**
Cash paid	4,150
Cash acquired with the subsidiary	257
Net cash outflow	**3,893**

The Group decided to expand its existent market share on insurance market by acquiring the given company, further securing its leading position in the growing insurance sector. Acquiree offers various insurance services to legal entities and individuals in Georgia, including motor, life and health insurance products. Since acquisition, the Group continues to run the business of the Acquire using its own experience, resources and expertise, thus achieving significant cost optimization and further contributing to overall Group profits.

Transaction was conducted at fair value and accounted for by acquisition method. Resulting gain on bargain purchase was recognised as equity contribution as it was transaction with entity under common control.

Since the acquisition date, the Group recorded GEL 35,517 and GEL 6,013 of revenue and profit, respectively. In the same period, GEL 995 and GEL 894 of revenue and profit, respectively comes from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 51,153 and GEL 3,867 of revenue and profit respectively. Management considers that the deal will have positive impact on the value of the Group.

1 The fair value of insurance premium receivables amounted to GEL 615. The gross amount of receivables in GEL 2,116. GEL 1,501 of the premium receivables was not expected to be collected;

2 Consideration comprised GEL 3,615, which consists of GEL 4,150 in cash, less GEL 535 pre-existing liabilities to Acquiree.

(Thousands of Georgian lari unless otherwise stated)

6. Cash and cash equivalents

Cash and cash equivalents as of 31 December comprise:

	2016	*2015*	*As at 1 January 2015*
Cash on hand	30	20	30
Current accounts	4,319	2,715	2,658
Total cash and cash equivalents	**4,349**	**2,735**	**2,688**

As of 31 December 2016 cash and cash equivalents of the Company on stand-alone basis comprise GEL 4,036 (2015: GEL 2,122; 1 January 2015: GEL 2,651). 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 2,910 (2015: GEL 2,714; 1 January 2015: GEL 2,090). Pension fund cash and cash equivalents which comprise GEL 2,202 (2015: GEL 1,412; 1 January 2015: GEL 2,398) (Note 16) are also eligible in minimum level requirements.

7. Bank deposits

Bank deposits as of 31 December comprise:

	2016	*2015*	*As at 1 January 2015*
JSC Bank of Georgia	13,602	9,344	2,563
JSC Bank Republic	4,019	1,125	–
JSC Tera Bank	2,817	3,368	2,149
JSC TBC Bank	1,837	3,161	2,922
JSC Liberty Bank	1,589	666	575
JSC Finca Bank	410	319	–
JSC Basis Bank	398	–	1,020
JSC Halyk Bank	256	–	–
JSC PrivatBank	–	–	1,503
JSC BTA Bank	–	–	1,064
JSC Bank Constanta	–	–	859
Total bank deposits	**24,928**	**17,983**	**12,655**

Bank deposits are represented by short-term (for 3 to 12 months) and medium-term placements with Georgian banks and earn annual interest of 8.5% to 13.5% (2015: 8% to 13.5%; 1 January 2015: 7% to 12%). Bank deposits placed with related party earn annual interest of 8.5% to 11.5% (2015: 8% to 12.5%; 1 January 2015: 8% to 10.75%).

The Group has pledged a part of its short-term deposits to fulfil collateral requirements. Refer to Note 21 for further details.

8. Available-for-sale financial assets

Available-for-sale financial assets as of 31 December comprise:

	2016	*2015*
JSC M2 Real Estate	1,090	983
JSC EVEX Medical Corporation	1,071	969
Georgian Water and Power, LLC	631	631
Microfinance Organization Credo, LLC	332	–
JSC Microfinance Organization Swiss Capital	265	–
Total available-for-sale financial assets	**3,389**	**2,583**

(Thousands of Georgian lari unless otherwise stated)

8. Available-for-sale financial assets (continued)

Corporate bonds of JSC Evex Medical Corporation are issued in USD with nominal interest rate of 9.5% and mature in May 2017. Corporate bonds of JSC M2 Real Estate are issued in USD with nominal interest rate of 9.5% and 7.5% and mature in March 2017 and October 2019. Promissory notes of JSC Microfinance Organization Swiss Capital are issued in USD with nominal interest rate of 13% and mature in March 2017. Promissory notes of Microfinance Organization Credo LLC are issued in GEL with nominal interest rate of 15% and mature in March and April 2017. Corporate bonds of Georgian Water and Power LLC are issued in GEL with nominal interest rate of 14% and mature in August 2017.

9. Insurance and reinsurance receivables

Insurance and reinsurance receivables as of 31 December comprise:

	2016	*2015*	*As at 1 January 2015*
Due from policyholders	27,793	21,713	19,157
Due from reinsurers	2,419	1,639	1,335
	30,212	**23,352**	**20,492**
Less − allowance for impairment for amounts due from policyholders and reinsurers (Note 17)	(7,204)	(5,474)	(2,664)
Total insurance and reinsurance receivables	**23,008**	**17,878**	**17,828**

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

10. Loans issued

Loans issued as as of 31 December comprise:

	2015	*As at 1 January 2015*
Block Georgia	2,526	1,799
JSC Insurance Company Imedi L	2,073	2,419
JSC United Capital	625	469
Unimed Samtskhe, LLC	−	529
Other	11	−
Total loans issued	**5,235**	**5,216**

All loans issued as at 31 December 2015 and 1 January 2015 have been settled as at 31 December 2016. In July 2016 GEL 7,000 was granted to the ultimate parent – JSC BGEO Group, which together with accrued interest was netted off in August 2016 with interim dividends declared and payable to JSC BG Financial. Refer to Note 19 for further details.

11. Taxation

The corporate income tax expenses comprise:

	2016	*2015*
Current tax charge	2,890	1,458
Deferred tax charge/(benefit) − origination and reversal of temporary differences	428	(792)
Income tax expense	**3,318**	**666**

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2016 (2015: 15%; 1 January 2015: 15%).

(Thousands of Georgian lari unless otherwise stated)

11. Taxation (continued)

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:

	2016	***2015***
Income before tax	**17,080**	**4,254**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**2,570**	**638**
Non-taxable income	(236)	(84)
Effect of changes in tax rates	748	–
Non-deductible expenses	(237)	112
Income tax expense	**3,318**	**666**

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies will not be subject to corporate income tax.

Following the enactment of the amendments, as at 31 December 2016 the Group remeasured its deferred tax assets and liabilities at the tax rates that were expected to apply to the period when the asset is realised or the liability is settled. As IAS 12 *Income Taxes* requires, the Group used 0% tax rate applicable for undistributed profits in respect of assets and liabilities expected to be realized or settled in the periods when the new regulation becomes effective starting from 1 January 2017 or 2019 as applicable to different companies within the Group.

The Group recognized income tax charge resulting from reversal of deferred tax assets and liabilities in amount of GEL 748 in profit or loss, and benefit of GEL 63 in other comprehensive income (to the extent that it related to items previously recognised in other comprehensive income) for the year ended 31 December 2016.

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2017 or 1 January 2019, as applicable. Tax law amendments related to such deemed profit distribution did not have any effect on the Group’s financial statements for the year ended 31 December 2016.

(Thousands of Georgian lari unless otherwise stated)

11. Taxation (continued)

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

	As at 1 January 2015	*In the income statement*	*In OCI*	*As at 31 December 2015*	*In the income statement*	*In OCI*	*As at 31 December 2016*
Tax effect of deductible temporary differences							
Insurance receivables	1,084	414	–	1,498	(1,002)	–	496
Tax loss carried forward	567	124	–	691	(691)	–	–
Other assets	819	401	–	1,220	(723)	–	497
Investments	87	–	–	87	–	–	87
Deferred tax assets	**2,557**	**939**	**–**	**3,496**	**(2,416)**	**–**	**1,080**
Tax effect of deductible temporary differences							
Insurance contracts liabilities	220	116	–	336	(336)	–	–
Property and equipment	192	(57)	48	183	(120)	(63)	–
Intangible assets	1,424	91	–	1,515	(1,515)	–	–
Other liabilities	20	(3)	–	17	(17)	–	–
Deferred tax liabilities	**1,856**	**147**	**48**	**2,051**	**(1,988)**	**(63)**	**–**
Net deferred tax assets	**701**	**792**	**(48)**	**1,445**	**(428)**	**63**	**1,080**

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), 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.

(Thousands of Georgian lari unless otherwise stated)

12. Deferred acquisition costs

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

	DAC
At 1 January 2015	**1,418**
Expenses deferred (Note 29)	1,547
Amortization (Note 29)	(1,050)
At 31 December 2015	**1,915**
Expenses deferred (Note 29)	1,475
Amortization (Note 29)	(717)
At 31 December 2016	**2,673**

13. Investment property

	Investment property
31 December 2015	**–**
Additions	497
Net gain from revaluation of investment property (Note 27)	348
31 December 2016	**845**

In August 2016 the Group received foreclosed property from loan issued to JSC United Capital in December 2014, no cash was involved in transaction.

Investment property is stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The date of latest revaluation is 6 October 2016 and was carried out by professional valuator. As at 31 December 2016 the Group analysed market prices for its investment property and concluded that the market price was not materially different from its carrying value. Refer to Note 34 for details on fair value measurements of investment property.

(Thousands of Georgian lari unless otherwise stated)

14. 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*	*Total*
Cost or revalued amount						
31 December 2015	**7,521**	**727**	**1,127**	**286**	**165**	**9,826**
Additions	183	192	225	250	398	**1,248**
Disposals	(143)	(18)	(70)	(110)	(20)	**(361)**
31 December 2016	**7,561**	**901**	**1,282**	**426**	**543**	**10,713**
Accumulated depreciation						
31 December 2015	**–**	**415**	**713**	**142**	**8**	**1,278**
Depreciation charge	123	68	138	56	15	**400**
Disposals	(39)	(5)	(17)	(43)	**–**	**(104)**
31 December 2016	**84**	**478**	**834**	**155**	**23**	**1,574**
Net book value						
31 December 2015	**7,521**	**312**	**414**	**144**	**157**	**8,548**
31 December 2016	**7,477**	**423**	**448**	**271**	**520**	**9,139**

(Thousands of Georgian lari unless otherwise stated)

14. Property and equipment (continued)

	Land and buildings	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revalued amount						
1 January 2015	**8,083**	**768**	**874**	**209**	**149**	**10,083**
Acquisition through business combinations (Note 5)	–	–	–	–	2	**2**
Additions	22	51	265	88	14	**440**
Disposals	–	(92)	(12)	(11)	–	**(115)**
Revaluation recognized in OCI*	111	–	–	–	–	**111**
Revaluation recognized in profit or loss	(695)	–	–	–	–	**(695)**
31 December 2015	**7,521**	**727**	**1,127**	**286**	**165**	**9,826**
Accumulated depreciation						
1 January 2015	**381**	**319**	**555**	**113**	**3**	**1,371**
Depreciation charge	149	96	161	37	5	**448**
Revaluation recognized in OCI*	(210)	–	–	–	–	**(210)**
Revaluation recognized in profit or loss	(320)	–	–	–	–	**(320)**
Disposals	–	–	(3)	(8)	–	**(11)**
31 December 2015	**–**	**415**	**713**	**142**	**8**	**1,278**
Net book value						
1 January 2015	**7,702**	**449**	**319**	**96**	**146**	**8,712**
31 December 2015	**7,521**	**312**	**414**	**144**	**157**	**8,548**

* Income tax benefit relating to revaluation of Office Buildings through other comprehensive income comprises GEL 48.

(Thousands of Georgian lari unless otherwise stated)

14. Property and equipment (continued)

Premises of the Group are subject to revaluation on a regular basis. The date of latest revaluation is 31 December 2015. As at 31 December 2016 the Group analysed market prices for its premises and concluded that the market price of premises was not materially different from their carrying value. Refer to Note 4 and 34 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 2016, 31 December 2015, and 1 January 2015 would have been as follows:

	2016	*2015*	*As at 1 January 2015*
Cost	8,205	8,131	8,109
Accumulated depreciation and impairment	(821)	(647)	(476)
Net carrying amount	**7,384**	**7,484**	**7,633**

No property and equipment is pledged as collateral as at 31 December 2016. As at 31 December 2015, building with net book value of GEL 2,158 was pledged as collateral under a loan received by a related party (Note 35).

15. Goodwill and other intangible assets

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

	Goodwill	*Licenses*	*Computer software*	*Total*
Cost				
1 January 2015	**13,063**	**150**	**873**	**14,086**
Additions	–	769	188	**957**
Acquisition through business combinations (Note 5)	–	1	–	**1**
31 December 2015	**13,063**	**920**	**1,061**	**15,044**
Additions	–	388	210	**598**
31 December 2016	**13,063**	**1,308**	**1,271**	**15,642**
Accumulated amortization and impairment				
1 January 2015	**–**	**67**	**344**	**411**
Amortization charge	–	96	289	**385**
31 December 2015	**–**	**163**	**633**	**796**
Amortization charge	–	205	169	**374**
31 December 2016	**–**	**368**	**802**	**1,170**
Net book value				
1 January 2015	**13,063**	**83**	**529**	**13,675**
31 December 2015	**13,063**	**757**	**428**	**14,248**
31 December 2016	**13,063**	**940**	**469**	**14,472**

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. The Company as a whole is considered a single cash-generating unit for goodwill impairment test purposes.

(Thousands of Georgian lari unless otherwise stated)

15. Goodwill and other intangible assets (continued)

The recoverable amount of 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 the cash-generating unit. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year period covered in financial budgets. Effective annual growth rate in three-year financial budgets is 13.1% (2015: 11.19%; 1 January 2015: 31.1%). 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 unit. Discount rate applied to the cash flow projections is 16.3% (2015: 13.3%; 1 January 2015: 14.5%).

Reasonably possible changes in key assumptions (-5 p.p. decrease in effective annual growth rate in the three-years budgets and +2 p.p. increase in discounting rate) would not have resulted in goodwill impairment as at 31 December 2016, 2015 and 1 January 2015.

16. 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 the Company. 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 pension fund liabilities consisted of:

	2016	*2015*
Total net contributions to the pension fund	10,734	9,129
Total net income earned on net pension fund contributions	5,707	4,577
Pension fund liabilities	**16,441**	**13,706**

The movement of pension fund liabilities during 2016 and 2015 was as follows:

	2016	*2015*
Pension fund liabilities as of 1 January	**13,706**	**11,289**
Total pension fund instalments during the year	3,085	3,028
Administration commission	(38)	(34)
Management commission	(245)	(213)
Investment income commission	(195)	(142)
Membership commission	(5)	(5)
Net income (net of physical persons income tax)	1,613	1,140
Funds withdrawn by participants	(1,480)	(1,357)
Total accumulated pension fund during the year	**2,735**	**2,417**
Pension fund liabilities as of 31 December	**16,441**	**13,706**

(Thousands of Georgian lari unless otherwise stated)

16. Pension fund assets and liabilities (continued)

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

	2016	*2015*	*As at 1 January 2015*
Bank deposits	12,504	11,259	8,746
Cash at bank	2,202	1,412	2,398
Available-for-sale financial assets	1,735	1,035	145
Pension fund assets	**16,441**	**13,706**	**11,289**

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

The Group has contributed GEL 282 as of 31 December 2015 (2015: GEL 221; 1 January 2015: GEL 167) to its employees' defined contribution pension plan.

17. Allowances for impairment and provisions

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

	Insurance and reinsurance receivables (Note 9)	*Loans Issued (Note 10)*
1 January 2015	**2,664**	**–**
Charge	919	–
Write-off	(88)	–
Recoveries	354	–
Currency translation difference	1,625	–
31 December 2015	**5,474**	**–**
Charge	706	182
Write-off	(37)	(182)
Recoveries	–	–
Currency translation difference	1,061	–
31 December 2016	**7,204**	**–**

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

18. Other assets

Other assets as of 31 December comprise:

	2016	*2015*	*As at 1 January 2015*
Advances and prepayments	764	823	988
Trade receivables	478	760	774
Assets transferred through subrogation	464	335	267
Receivables from regression	327	572	424
Inventory	199	120	76
Prepaid operating taxes	81	22	35
Other	454	331	90
Total other assets	**2,767**	**2,963**	**2,654**

(Thousands of Georgian lari unless otherwise stated)

19. Equity

As of 31 December 2016 the number of authorized ordinary shares was 2,700,000 (2015: 2,700,000; 1 January 2015: 1,600,359) with a nominal value per share of one Georgian lari. Authorized shares amount to 2,700,000 (2015: 2,700,000; 1 January 2015: 1,600,359) at par value of one Georgian lari. 1,889,155 authorized shares have been issued and fully paid. (2015: 1,889,155; 1 January 2015:1,600,000).

	Number of shares (thousand shares)	*Nominal amount*
Ordinary shares issued and fully paid		
At 1 January 2015	**1,600**	**1,600**
Increase in share capital	289	289
At 31 December 2015	**1,889**	**1,889**
At 31 December 2016	**1,889**	**1,889**

On 29 April 2015 authorised shares of the Company were increased by 1,100,000 new shares at nominal share value of GEL 1. From the increased authorized share capital 288,796 ordinary new shares were issued and fully paid at GEL 14.37 per share. From the total increase of Company's capital of GEL 4,150, GEL 289 contributed to increase in share capital, and GEL 3,861 to increase in share premium.

	GEL '000
Share premium	
At 1 January 2015	**2,883**
Increase in share premium	3,861
Additional equity contribution (Note 5)	243
At 31 December 2015	**6,987**
At 31 December 2016	**6,987**

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.

On 31 August 2016, shareholder of JSC Insurance Company Aldagi declared 2016 dividends comprising Georgian Lari 3.768 per share. Payment of the total GEL 7,120 interim dividends was received by the shareholder on 31 August 2016 by setting off previously issued loan of GEL 7,000 and accrued interest GEL 120 to the ultimate parent by the Company.

No dividends were declared or paid in 2015.

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 recognised 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 2,200, of which 100% should be kept as cash at bank or bank deposits (at 31 December 2015 and 1 January 2015: GEL 1,500 and 80% kept as cash at bank or bank deposits). Bank confirmation letters are submitted to ISSSG on a monthly 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.

(Thousands of Georgian lari unless otherwise stated)

20. Insurance contract liabilities and reinsurance assets

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

	2016	*2015*	*As at 1 January 2015*
Insurance contracts liabilities			
Unearned premiums provision	29,369	25,010	20,452
Provisions for claims reported by policyholders	11,831	12,745	7,534
Provisions for claims incurred but not reported (IBNR)	342	209	–
Total insurance contracts liabilities	**41,542**	**37,964**	**27,986**
Reinsurance assets			
Reinsurers' share in unearned premiums provision	(5,673)	(5,806)	(6,043)
Reinsurers' share in provisions for claims reported by policyholders	(7,488)	(8,020)	(5,247)
Total reinsurance assets	**(13,161)**	**(13,826)**	**(11,290)**
Insurance contracts liabilities net of reinsurance			
Unearned premiums provision	23,696	19,204	14,409
Provisions for claims reported by policyholders	4,343	4,725	2,287
Provisions for claims incurred but not reported (IBNR)	342	209	–
Total insurance contracts liabilities net of reinsurance	**28,381**	**24,138**	**16,696**

(Thousands of Georgian lari unless otherwise stated)

20. Insurance contract liabilities and reinsurance assets (continued)

Insurance contracts liabilities as of 31 December comprise:

		2016			2015			As at 1 January 2015		
	Notes	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***
Life insurance contracts	(a)	1,384	(166)	1,218	660	(63)	597	180	(28)	152
General insurance contracts	(b)	40,158	(12,995)	27,163	37,304	(13,763)	23,541	27,806	(11,262)	16,544
Total insurance contracts liabilities		**41,542**	**(13,161)**	**28,381**	**37,964**	**(13,826)**	**24,138**	**27,986**	**(11,290)**	**16,696**

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

		2016			2015		
	Notes	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***
At 1 January		**660**	**(63)**	**597**	**180**	**(28)**	**152**
Premiums written during the year	25	7,525	(635)	6,890	6,540	(587)	5,953
Premiums earned during the year		(7,503)	623	(6,880)	(6,572)	576	(5,996)
Claims incurred during the current accident year		3,090	(272)	2,818	1,821	(79)	1,742
Claims paid during the year	28	(2,388)	181	(2,207)	(1,576)	55	(1,521)
Assumed through Business Combination		–	–	–	267	–	267
At 31 December		**1,384**	**(166)**	**1,218**	**660**	**(63)**	**597**

(Thousands of Georgian lari unless otherwise stated)

20. Insurance contract liabilities and reinsurance assets (continued)

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

		2016			*2015*			*As at 1 January 2015*		
	Notes	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***
Provisions for claims reported by policyholders	(1)	10,844	(7,373)	3,471	12,303	(7,996)	4,307	7,388	(5,248)	2,140
Provisions for claims incurred but not reported (IBNR)		50	–	50	74	–	74	–	–	–
Outstanding claims provision		**10,894**	**(7,373)**	**3,521**	**12,377**	**(7,996)**	**4,381**	**7,388**	**(5,248)**	**2,140**
Provision for unearned premiums	(2)	29,264	(5,622)	23,642	24,927	(5,767)	19,160	20,418	(6,014)	14,404
Total general insurance contracts liabilities		**40,158**	**(12,995)**	**27,163**	**37,304**	**(13,763)**	**23,541**	**27,806**	**(11,262)**	**16,544**

(Thousands of Georgian lari unless otherwise stated)

20. Insurance contract liabilities and reinsurance assets (continued)

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

		2016			**2015**		
	Notes	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***
At 1 January		**12,377**	**(7,996)**	**4,381**	**7,388**	**(5,248)**	**2,140**
Claims incurred during the current accident year		23,512	(7,108)	16,404	28,062	(7,662)	20,400
Claims paid during the year	28	(24,995)	7,731	(17,264)	(23,320)	4,914	(18,406)
Assumed through business combination		–	–	–	247	–	247
At 31 December		**10,894**	**(7,373)**	**3,521**	**12,377**	**(7,996)**	**4,381**

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

		2016			**2015**		
	Notes	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***	***Insurance contracts liabilities***	***Reinsurers' share of liabilities***	***Net***
At 1 January		**24,927**	**(5,767)**	**19,160**	**20,418**	**(6,014)**	**14,404**
Premiums written during the year	25	67,865	(19,871)	47,994	65,682	(20,467)	45,215
Premiums earned during the year		(63,528)	20,016	(43,512)	(61,911)	20,714	(41,197)
Assumed through business combination		–	–	–	738	–	738
At 31 December		**29,264**	**(5,622)**	**23,642**	**24,927**	**(5,767)**	**19,160**

(Thousands of Georgian lari unless otherwise stated)

20. Insurance contract liabilities and reinsurance assets (continued)

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 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 significant accounting policies, Insurance Contract Liabilities and Note 4 – Significant accounting judgements, estimates and assumptions.

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 33).

(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)

20. Insurance contract liabilities and reinsurance assets (continued)

Insurance contract liabilities and reinsurance assets − terms, assumptions and sensitivities (continued)

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

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*Total*
Accident year	8,771	7,428	16,301	13,058	16,406	31,128	27,927	
One year later	8,702	7,653	14,048	12,570	15,817	30,186	–	
Two years later	9,421	7,593	14,021	12,011	15,352	–	–	
Three years later	9,399	7,556	14,019	12,161	–	–	–	
Four years later	9,367	7,476	14,012	–	–	–	–	
Five years later	9,543	7,476	–	–	–	–	–	
Six years later	9,683	–	–	–	–	–	–	
Current estimate of cumulative claims incurred	**9,683**	**7,476**	**14,012**	**12,161**	**15,352**	**30,186**	**27,927**	**116,797**
Accident year	(6,665)	(5,700)	(10,733)	(8,867)	(12,268)	(21,926)	(19,254)	
One year later	(7,559)	(6,904)	(13,013)	(10,520)	(14,185)	(29,662)	–	
Two years later	(7,887)	(7,441)	(13,937)	(11,463)	(14,467)	–	–	
Three years later	(7,887)	(7,441)	(14,012)	(11,566)	–	–	–	
Four years later	(8,220)	(7,441)	(14,012)	–	–	–	–	
Five years later	(8,222)	(7,441)	–	–	–	–	–	
Six years later	(8,222)	–	–	–	–	–	–	
Cumulative payments to date	**(8,222)**	**(7,441)**	**(14,012)**	**(11,566)**	**(14,467)**	**(29,662)**	**(19,254)**	**(104,624)**
Gross outstanding claims provision per the statement of financial position	**1,461**	**35**	**–**	**595**	**885**	**524**	**8,673**	**12,173**
Current estimation of surplus/(deficiency)	(912)	(48)	2,289	897	1,054	942		
% of surplus/(deficiency) of initial gross reserve	-10.40%	-0.65%	14.04%	6.87%	6.42%	3.03%		

(Thousands of Georgian lari unless otherwise stated)

20. Insurance contract liabilities and reinsurance assets (continued)

Insurance contract liabilities and reinsurance assets − terms, assumptions and sensitivities (continued)

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

	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*Total*
Accident year	3,937	5,788	12,355	10,337	12,855	21,815	19,601	
One year later	3,934	6,088	12,260	10,086	13,274	21,721	–	
Two years later	4,506	6,132	12,253	10,190	13,103	–	–	
Three years later	4,398	6,090	12,249	10,284	–	–	–	
Four years later	4,346	6,090	12,242	–	–	–	–	
Five years later	4,346	6,090	–	–	–	–	–	
Six years later	4,346	–	–	–	–	–	–	
Current estimate of cumulative claims incurred	**4,346**	**6,090**	**12,242**	**10,284**	**13,103**	**21,721**	**19,601**	**87,387**
Accident year	(3,037)	(5,055)	(9,865)	(8,172)	(10,963)	(17,669)	(15,439)	
One year later	(3,869)	(5,979)	(11,896)	(9,806)	(12,745)	(21,327)	–	
Two years later	(4,074)	(6,055)	(12,175)	(10,181)	(13,009)	–	–	
Three years later	(4,013)	(6,055)	(12,242)	(10,284)	–	–	–	
Four years later	(4,346)	(6,055)	(12,242)	–	–	–	–	
Five years later	(4,346)	(6,055)	–	–	–	–	–	
Six years later	(4,346)	–	–	–	–	–	–	
Cumulative payments to date	**(4,346)**	**(6,055)**	**(12,242)**	**(10,284)**	**(13,009)**	**(21,327)**	**(15,439)**	**(82,702)**
Gross outstanding claims provision per the statement of financial position	**–**	**35**	**–**	**–**	**94**	**394**	**4,162**	**4,685**
Current estimation of surplus/(deficiency)	(409)	(302)	113	53	(248)	94		
% of surplus/(deficiency) of initial gross reserve	-10.39%	-5.22%	0.91%	0.51%	-1.93%	0.43%		

(Thousands of Georgian lari unless otherwise stated)

21. Derivative financial liabilities

On 18 May 2016, the Group entered into foreign exchange contract with JSC Bank of Georgia (a related party). Notional amount for the active contract is USD 2.5 million. Foreign exchange loss on the contract comprise GEL 1,144. Contract matures on 18 May 2017.

On 1 November 2014, the Group entered into foreign exchange forward contract with JSC Medical Corporation Evex (formerly known as JSC My Family Clinic, a related party). Notional amount for the contract was USD 17.3 million. Foreign exchange loss on the contract comprise GEL 8,611 for 2015. Contract matured on 1 November 2015. In January 2016 GEL 2,586 was netted off with receivable from JSC Medical Corporation Evex that originated in the same month from factoring loan issued to Block Georgia by the Company. GEL 1,105 remains payable towards JSC Medical Corporation Evex as at 31 December 2016 (2015: 3,691) (Note 23).

The Group has pledged part of its short-term deposits in order to fulfil the collateral requirements for the derivative contracts. At 31 December 2016 the carrying value of the short-term deposit pledged was GEL 2,217.

22. Other insurance liabilities

Other insurance liabilities as of 31 December include:

	2016	*2015*	*As at 1 January 2015*
Reinsurance payables	8,238	8,268	11,802
Advances received	1,166	1,019	3,310
Claims payable	193	190	237
Other insurance liabilities	**9,597**	**9,477**	**15,349**

23. Other liabilities

Other liabilities as of 31 December comprise:

	2016	*2015*	*As at 1 January 2015*
Accruals for employee compensation	2,688	2,208	1,597
Commission payable	1,879	1,504	653
Payables from forward contracts	1,105	3,691	531
Advances received	224	226	–
Operating taxes payable	126	74	58
Trade payables	50	21	309
Other	619	788	423
Other liabilities	**6,691**	**8,512**	**3,571**

24. 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.

(Thousands of Georgian lari unless otherwise stated)

24. Commitments and contingencies (continued)

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 preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Financial commitments and contingencies

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

	2016	*2015*	*As at 1 January 2015*
Operating lease commitments			
Not later than 1 year	764	642	473
Later than 1 year but not later than 5 years	1,105	773	202
Financial commitments and contingencies	**1,869**	**1,415**	**675**

25. Net insurance revenue

Net insurance revenue comprises:

	Notes	*2016*	*2015*
Premiums written on life insurance contracts	20	7,525	6,540
Premiums written on general insurance contracts	20	67,865	65,682
Total written premiums		**75,390**	**72,222**
Gross change in life unearned premium provision		(22)	(41)
Gross change in general unearned premium provision		(4,337)	(4,350)
Total gross earned premiums on insurance contracts		**71,031**	**67,831**
Reinsurers' share of life insurance contracts premium revenue,	20	(635)	(587)
Reinsurers' share of general insurance contracts premium revenue, direct	20	(19,871)	(20,467)
Reinsurers' share of change in life unearned premium provision		12	11
Reinsurers' share of change in general insurance contracts unearned premium provision		(146)	(246)
Total reinsurers' share of gross earned premiums on insurance contracts		**(20,640)**	**(21,289)**
Net insurance revenue		**50,391**	**46,542**

(Thousands of Georgian lari unless otherwise stated)

26. Interest income and interest expense

Interest income and interest expense from financial instruments comprises:

	2016	*2015*
Interest income		
Bank deposits	2,663	1,320
Loan issued	166	745
Available-for-sale financial assets	317	156
Interest income	**3,146**	**2,221**
Interest expense on borrowings	**–**	**(71)**

27. Other operating income

Other operating income comprises:

	2016	*2015*
Other operating income		
Fee for pension fund asset management	482	394
Net gain from revaluation of investment property	348	–
Income from hotel services	328	209
Income from sale of greencards	168	234
Reinsurance commission	164	328
Income from sale of fixed assets	78	–
Penalty for breach of contract	63	162
Income from rent of office space	33	30
Other	87	267
Total other operating income	**1,751**	**1,624**

28. Net insurance claims incurred

Net insurance claims incurred comprise:

	Notes	*2016*	*2015*
General insurance claims paid, direct	20	(24,995)	(23,320)
Life insurance claims paid	20	(2,388)	(1,576)
Total insurance claims paid		**(27,383)**	**(24,896)**
Reinsurers' share of life claims paid	20	181	55
Reinsurers' share of general claims paid	20	7,731	4,914
Gross change in total insurance contract liabilities		781	(5,016)
Reinsurers' share of change in total insurance contract liabilities		(532)	2,772
Claim settlement expenses		(780)	(545)
Income from regress and salvages		1,899	2,615
Net insurance claims incurred		**(18,103)**	**(20,101)**

29. Acquisition costs, net of reinsurance

Acquisition costs, net of reinsurance comprise:

	2016	*2015*
Acquisition costs	(7,215)	(6,350)
Acquisition costs deferred (Note 12)	1,475	1,547
Amortization of deferred acquisition costs (Note 12)	(717)	(1,050)
Total acquisition costs	**(6,457)**	**(5,853)**

(Thousands of Georgian lari unless otherwise stated)

30. Salaries and other employee benefits

Salaries and employee benefits comprise:

	2016	2015
Salaries	(5,244)	(4,413)
Bonuses	(2,837)	(2,358)
Insurance and other benefits	(135)	(128)
Share-based compensation	(211)	(86)
Salaries and other employee benefits	**(8,427)**	**(6,985)**

31. General and administrative expenses

General and administrative expenses comprise:

	2016	2015
Occupancy and rent	(733)	(691)
Marketing and advertising	(447)	(385)
Legal and consultancy	(278)	(314)
Utilities	(239)	(181)
Representative	(220)	(259)
Personnel training	(143)	(45)
Charity	(117)	(119)
Bank fees and commissions	(103)	(94)
Communications	(90)	(110)
Business travel and related	(88)	(56)
Operating taxes	(84)	(122)
Office supplies	(77)	(82)
Membership fees	(60)	(51)
Fuel	(59)	(65)
Repair and maintenance of property and equipment	(46)	(30)
Printing	(25)	(12)
Security	(17)	(12)
Tax penalty	–	(170)
Other	(297)	(228)
Total general and administrative expenses	**(3,123)**	**(3,026)**

32. Other operating expenses

Other operating expenses comprise:

	2016	2015
Fee and commission expenses	(45)	(84)
Loss on PPE revaluation	–	(375)
Other	(96)	(268)
Total operating expenses	**(141)**	**(727)**

(Thousands of Georgian lari unless otherwise stated)

33. 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 recognises 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 of management, 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.

Capital management objectives

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

- 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 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.

For the purpose of the Group's capital management, capital includes total equity less investment in subsidiaries and associates. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the ISSSG directives. As at 31 December 2016 the Group complied with requirements related to the minimum required capital – GEL 2,200 for life insurance, GEL 2,000 for non-life insurance and GEL 2,200 for reinsurance (GEL 1,500 for life insurance, GEL 1,000 for non-life insurance and GEL 1,500 for reinsurance as at 31 December 2015 and 1 January 2015).

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

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:

	2016	***2015***
Loss ratio	36%	43%
Combined ratio	72%	79%

Key assumptions

Claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported – IBNR) 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, including potential outstanding loss notifications, experience with similar claims and case law, at and after the reporting date.

The Group has used all possible and currently available information to estimate provision for claims reported by policyholders including claims' adjustment expenses according to every class of insurance contract. Provision for IBNR has been evaluated based on historical pattern of delays in claims reporting and claims payment using Bornhuetter-Ferguson method and Stochastic model. In addition, larger reported claims are usually separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

The principal assumption underlying the estimates is the Group's past and future claims development experience which can be used to project future claims development and hence ultimate claims costs. As such, this method extrapolates the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years as well as by significant business lines. Insurance contracts liabilities on insurance business written significantly depends on fluctuations in currency exchange rates as the insurance values on these contracts are denominated in US dollars.

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Insurance risk (continued)

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. Because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date. The most significant risks arise from changes in loss frequency and loss severity – quantity of claims and average claim amount are key inputs for Motor Insurance IBNR estimation. Motor insurance reserves are rather sensitive to Lari devaluation and forex risk as significant portion of car repair cost is linked to foreign currencies.

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

(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 insurance contract liabilities and net insurance contract liabilities as at 31 December 2016 on life insurance contracts is GEL 1,384 and GEL 1,218 respectively (2015: GEL 660 and GEL 597; 1 January 2015: GEL 180 and GEL 152).

(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.

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Insurance risk (continued)

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.

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

	2016			2015			As at 1 January 2015		
	Gross insurance contract liabilities	Reinsurers share of insurance contract liabilities	Net insurance contract liabilities	Gross insurance contract liabilities	Reinsurers share of insurance contract liabilities	Net insurance contract liabilities	Gross insurance contract liabilities	Reinsurers share of insurance contract liabilities	Net insurance contract liabilities
Motor	15,396	(47)	15,349	13,965	(61)	13,904	10,037	(46)	9,991
Property	12,759	(6,172)	6,587	13,835	(7,496)	6,339	12,285	(7,939)	4,346
Liability	8,398	(6,119)	2,279	7,924	(5,886)	2,038	2,669	(1,610)	1,059
Guarantees	2,715	(581)	2,134	1,042	(288)	754	2,451	(1,628)	823
Cargo	836	(76)	760	419	(32)	387	364	(39)	325
Health	54	–	54	119	–	119	–	–	–
	40,158	**(12,995)**	**27,163**	**37,304**	**(13,763)**	**23,541**	**27,806**	**(11,262)**	**16,544**

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Insurance risk (continued)

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.

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 process 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 21% of total reinsurance assets at the reporting date (2015: 26%; 1 January 2015: 28%). 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.

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Financial risk (continued)

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.

	Notes	*Neither past due nor impaired as at 31 December 2016*	*Past due but not impaired as at 31 December 2016*	*Total 2016*
Bank deposits	7	24,928	–	**24,928**
Available-for-sale financial assets	8	3,389	–	**3,389**
Insurance and reinsurance receivables	9	21,444	1,564	**23,008**
Reinsurance assets	20	13,161	–	**13,161**
Pension fund assets	16	16,441	–	**16,441**
Total		**79,363**	**1,564**	**80,927**

	Notes	*Neither past due nor impaired as at 31 December 2015*	*Past due but not impaired as at 31 December 2015*	*Total 2015*
Bank deposits	7	17,983	–	**17,983**
Loan issued	10	3,202	2,033	**5,235**
Available-for-sale financial assets	8	2,583	–	**2,583**
Insurance and reinsurance receivables	9	16,302	1,576	**17,878**
Reinsurance assets	20	13,826	–	**13,826**
Pension fund assets	16	13,706	–	**13,706**
Total		**67,602**	**3,609**	**71,211**

	Notes	*Neither past due nor impaired as at 1 January 2015*	*Past due but not impaired as at 1 January 2015*	*Total as at 1 January 2015*
Bank deposits	7	12,655	–	**12,655**
Loan Issued	10	4,065	1,151	**5,216**
Insurance and reinsurance receivables	9	16,709	1,119	**17,828**
Reinsurance assets	20	11,290	–	**11,290**
Pension fund assets	16	11,289	–	**11,289**
Total		**56,008**	**2,270**	**58,278**

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Financial risk (continued)

The Group does not have a credit rating system to evaluate credit quality of either past due or impaired financial assets. The credit quality of financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. The table below provides information regarding the credit risk exposure of the Group by classifying neither past due not impaired financial assets according to external ratings.

31 December 2016	*Notes*	*BB-*	*B+*	*B*	*not rated*	*Total neither past due nor impaired*
Bank Deposits	7	15,694	1,589	398	7,247	**24,928**
Available-for-sale financial assets	8	631	-	-	2,758	**3,389**
Pension fund assets	16	8,954	1,404	-	6,083	**16,441**
Total		**25,279**	**2,993**	**398**	**16,088**	**44,758**

31 December 2015	*Notes*	*BB-*	*B+*	*B*	*not rated*	*Total neither past due nor impaired*
Bank Deposits	7	12,505	666	-	4,812	**17,983**
Available-for-sale financial assets	8	631	-	-	1,952	**2,583**
Pension fund assets	16	9,221	1,241	-	3,244	**13,706**
Total		**22,357**	**1,907**	**-**	**10,008**	**34,272**

As at 1 January 2015	*Notes*	*BB-*	*B+*	*B*	*not rated*	*Total neither past due nor impaired*
Bank Deposits	7	5,485	575	1,020	5,575	**12,655**
Pension fund assets	16	1,790	1,715	-	7,784	**11,289**
Total		**7,275**	**2,290**	**1,020**	**13,359**	**23,944**

The Group does not have a credit rating system to evaluate credit quality of Insurance and reinsurance receivables, Reinsurance Assets and Loans issued.

(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.

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Financial risk (continued)

The table below analyses financial 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 2016	***Within one year***	***More than one year***	***Total***
Assets			
Cash and cash equivalents	4,349	–	**4,349**
Bank deposits	24,928	–	**24,928**
Available-for-sale financial assets	2,584	805	**3,389**
Insurance and reinsurance receivables	22,966	42	**23,008**
Reinsurance assets (except reinsurer's share in UPR)	6,217	1,271	**7,488**
Pension fund assets	15,514	927	**16,441**
Other assets	2,364	403	**2,767**
Total assets	**78,922**	**3,448**	**82,370**
Liabilities			
Insurance contract liabilities (except UPR)	10,415	1,758	**12,173**
Derivative financial liabilities	1,144	–	**1,144**
Other insurance liabilities	9,157	440	**9,597**
Pension fund liabilities	16,441	–	**16,441**
Other liabilities	6,691	–	**6,691**
Total liabilities	**43,848**	**2,198**	**46,046**
Net position	**35,074**	**1,250**	**36,324**
Accumulated gap	**35,074**	**36,324**	

31 December 2015	***Within one year***	***More than one year***	***Total***
Assets			
Cash and cash equivalents	2,735	–	**2,735**
Bank deposits	16,062	1,921	**17,983**
Available-for-sale financial assets	–	2,583	**2,583**
Insurance and reinsurance receivables	17,676	202	**17,878**
Loan issued	920	4,315	**5,235**
Reinsurance assets (except reinsurers' share in UPR)	6,952	1,068	**8,020**
Pension fund assets	13,010	696	**13,706**
Other assets	2,481	482	**2,963**
Total assets	**59,836**	**11,267**	**71,103**
Liabilities			
Insurance contract liabilities (except UPR)	11,248	1,706	**12,954**
Derivative financial liabilities	–	–	**–**
Other insurance liabilities	8,887	590	**9,477**
Pension fund liabilities	13,706	–	**13,706**
Other liabilities	8,356	156	**8,512**
Total liabilities	**42,197**	**2,452**	**44,649**
Net position	**17,639**	**8,815**	**26,454**
Accumulated gap	**17,639**	**26,454**	

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Financial risk (continued)

As at 1 January 2015	*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 (except reinsurer's share in UPR)	4,145	1,102	**5,247**
Pension fund assets	11,289	–	**11,289**
Other assets	2,258	396	**2,654**
Total assets	**51,959**	**5,618**	**57,577**
Liabilities			
Insurance contract liabilities (except UPR)	6,131	1,403	**7,534**
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	**37,523**	**4,918**	**42,441**
Net position	**14,436**	**700**	**15,136**
Accumulated gap	**14,436**	**15,136**	

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 2016, 2015 and 1 January 2015 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 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Derivative financial liability	–	1,144	–	–	**1,144**
Pension fund liabilities	–	16,441	–	–	**16,441**
Total undiscounted borrowings	**–**	**17,585**	**–**	**–**	**17,585**

Borrowings as at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Pension fund liabilities	–	13,706	–	–	**13,706**
Total undiscounted borrowings	**–**	**13,706**	**–**	**–**	**13,706**

Borrowings as at 1 January 2015	*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**
Pension fund liabilities	–	11,289	–	–	**11,289**
Total undiscounted borrowings	**557**	**14,815**	**810**	**–**	**16,182**

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Market risk

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

The Group structures levels of market risk it accepts through compliance with ISSSG directives on assets allowable to secure insurance reserves and structure of such assets. This directive determines what constitutes market risk for the Group; 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, and geographical and industry segments.

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 recognised assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2016, 2015 and 1 January 2015 on its monetary assets and liabilities. 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 2016			
	GEL	***USD***	***EUR***	***Total***
Assets				
Cash and cash equivalents	4,128	213	8	**4,349**
Bank Deposits	24,928	–	–	**24,928**
Available-for-sale financial assets	963	2,426	–	**3,389**
Insurance and reinsurance receivables	4,778	18,015	215	**23,008**
Reinsurance assets	5,935	7,226	–	**13,161**
Pension fund assets	15,347	1,064	30	**16,441**
Total assets	**56,079**	**28,944**	**253**	**85,276**
Liabilities				
Insurance contract liabilities	31,798	9,726	18	**41,542**
Other insurance liabilities	962	8,386	249	**9,597**
Pension fund liability	16,404	34	3	**16,441**
Other liabilities	6,459	232	–	**6,691**
Total liabilities	**55,623**	**18,378**	**270**	**74,271**
Net position, before derivatives	**456**	**10,566**	**(17)**	**11,005**
Derivative financial instruments	5,595	(6,739)	**–**	**(1,144)**
Net position including derivatives	**6,051**	**3,827**	**(17)**	**9,861**
Increase in currency rate in %		14.0%	17.5%	
Effect on profit		536	(3)	
Decrease in currency rate in %		-14.0%	-17.5%	
Effect on profit		(536)	3	

(Thousands of Georgian lari unless otherwise stated)

33. Risk management (continued)

Market risk (continued)

	As at 31 December 2015			
	GEL	***USD***	***EUR***	***Total***
Assets				
Cash and cash equivalents	1,206	1,405	124	**2,735**
Bank deposits	17,983	–	–	**17,983**
Available-for-sale financial assets	631	1,952	–	**2,583**
Loans Issued	2,076	3,159	–	**5,235**
Insurance and reinsurance receivables	4,436	13,180	262	**17,878**
Reinsurance assets	5,901	7,925	–	**13,826**
Pension fund assets	12,409	1,297	–	**13,706**
Total assets	**44,642**	**28,918**	**386**	**73,946**
Liabilities				
Insurance contract liabilities	28,601	9,350	13	**37,964**
Other insurance liabilities	1,644	7,574	259	**9,477**
Pension fund liability	13,706	–	–	**13,706**
Other liabilities	8,131	381	–	**8,512**
Total liabilities	**52,082**	**17,305**	**272**	**69,659**
Net position	**(7,440)**	**11,613**	**114**	**4,287**
Increase in currency rate in %		15%	20%	
Effect on profit		1,742	23	
Decrease in currency rate in %		-15%	-20%	
Effect on profit		(1,742)	(23)	

	As at 1 January 2015			
	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**
Pension fund assets	11,289	–	–	**11,289**
Total assets	**36,229**	**24,238**	**499**	**60,966**
Liabilities				
Insurance contract liabilities	21,404	6,582	–	**27,986**
Other insurance liabilities	3,647	11,508	194	**15,349**
Borrowings	30	2,900	–	**2,930**
Pension fund liability	11,289	–	–	**11,289**
Other liabilities	3,279	226	66	**3,571**
Total liabilities	**39,649**	**21,216**	**260**	**61,125**
Net position	**(3,420)**	**3,022**	**239**	**(159)**
Derivative financial instruments	31,106	(32,874)	–	(1,768)
Net position including derivatives	**27,686**	**(29,852)**	**239**	**(1,927)**
Increase in currency rate in %		23.4%	6.5%	
Effect on profit		(6,985)	16	
Decrease in currency rate in %		-23.4%	-6.5%	
Effect on profit		6,985	(16)	

(Thousands of Georgian lari unless otherwise stated)

34. 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 2016*
Assets measured at fair value				
Office buildings	–	–	7,477	**7,477**
Investment property	–	–	845	**845**
Assets for which fair values are disclosed				
Cash and cash equivalents	4,349	–	–	**4,349**
Bank deposits	–	24,928	–	**24,928**
Available-for-sale financial assets	–	3,389	–	**3,389**
Pension fund assets:				
–Cash and cash equivalents	*2,202*	–	–	***2,202***
–Bank deposits	–	*12,504*	–	***12,504***
–Available-for-sale financial assets	–	*1,735*	–	***1,735***
Liabilities measured at fair value				
Derivative financial liabilities	–	1,144	–	**1,144**
Pension fund liability	–	16,441	–	**16,441**

	Level 1	*Level 2*	*Level 3*	*Total 2015*
Assets measured at fair value				
Office buildings	–	–	7,521	**7,521**
Assets for which fair values are disclosed				
Cash and cash equivalents	2,735	–	–	**2,735**
Bank deposits	–	17,983	–	**17,983**
Loan Issued	–	–	5,235	**5,235**
Available-for-sale financial assets	–	2,583	–	**2,583**
Pension fund assets:				
–Cash and cash equivalents	*1,412*	–	–	***1,412***
–Bank deposits	–	*11,259*	–	***11,259***
–Available-for-sale financial assets	–	*1,035*	–	***1,035***
Liabilities measured at fair value				
Pension fund liability	–	**13,706**	–	13,706

	Level 1	*Level 2*	*Level 3*	*Total as at 1 January 2015*
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:				
–Cash and cash equivalents	*2,398*	–	–	***2,398***
–Bank deposits	–	*8,746*	–	***8,746***
–Available-for-sale financial assets	–	*145*	–	***145***
Liabilities measured at fair value				
Derivative financial liabilities	–	1,768	–	**1,768**
Pension fund liability	–	11,289	–	**11,289**
Liabilities for which fair values are disclosed				
Borrowings	–	–	2,930	**2,930**

(Thousands of Georgian lari unless otherwise stated)

34. Fair values measurements (continued)

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.

Available-for-sale financial assets

Available-for-sale financial assets are valued using a valuation technique or pricing models consist of unquoted debt securities. These securities are valued using models which incorporate data observable in the market – market rates appropriate to instrument maturity, currency and issuer's credit risk.

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.

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 2016, 2015 and 1 January 2015 are as shown below:

Level 3 property at fair value

	2016	*Valuation technique*	*Significant unobservable inputs*	*Amount range*	*Area range*	*Sensitivity of the input to fair value*
Investment property	**845**	Market approach	Price per square metre	1,047	346	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Office buildings and hotel	**7,477**					
	1,451	Market approach	Price per square metre	1,121-2,951	66-402	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	6,026	Income approach	Market rent rate, room rate per square metre	49-255		Increase (decrease) in the market rent rate and room rate would result in increase (decrease) in fair value
			Occupancy rate	40-80%		Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Yield rate, discount rate	11.2-14.2%	593-2,283	Increase (decrease) in the yield rate and discount rate would result in decrease (increase) in fair value

(Thousands of Georgian lari unless otherwise stated)

34. Fair values measurements (continued)

	2015	*Valuation technique*	*Significant unobservable inputs*	*Amount range*	*Area range*	*Sensitivity of the input to fair value*
Office buildings and hotel	**7,521**					
	1,603	Market approach	Price per square metre	1,121-2,951	66-402	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	5,918	Income approach	Market rent rate, room rate per square metre	49-255	593-2,283	Increase (decrease) in the market rent rate and room rate would result in increase (decrease) in fair value
			Occupancy rate	40-80%	593-2,283	Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Yield rate, discount rate	11.2-14.2%	593-2,283	Increase (decrease) in the yield rate and discount rate would result in decrease (increase) in fair value

	As at 1 January 2015	*Valuation technique*	*Significant unobservable inputs*	*Amount range*	*Area range*	*Sensitivity of the input to fair value*
Office buildings	**7,702**					
	3,652	Market approach	Price per square metre	779-5,311	68-593	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
	4,050	Cost approach	Replacement cost per square metre	1,846	1,609	Increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value
			Developers' profit margin	10%		Increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value
			Land price per square metre	388	1,085	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value

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

As at 31 December 2016, 2015 and 1 January 2015, carrying values of financial assets and liabilities that are not carried at fair value in consolidated statement of financial position was not significantly different to their fair values.

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)

35. 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:

	2016	2015		As at 1 January 2015	
	Entities under common control*	Entities under common control*	Other	Parent	Entities under common control*
Assets					
Cash and cash equivalents	3,030	2,231	–	2,417	–
Bank deposits	13,602	9,344	–	2,563	–
Insurance and reinsurance receivables	3,019	1,669	–	380	303
Pension fund assets	8,858	6,149	–	1,790	–
Other assets	122	400	–	140	148
Available-for-sale financial assets	2,792	1,952	631	–	–
Loan issued	–	2,074	–	–	2,947
	31,423	**23,819**	**631**	**7,290**	**3,398**
Liabilities					
Borrowings	–	–	–	1,181	–
Derivative financial liabilities	1,144	–	–	–	1,768
Other liabilities	1,291	3,954	–	136	640
	2,435	**3,954**	–	**1,317**	**2,408**
PPE pledged as collateral on behalf of related parties	–	2,158	–	–	–

(Thousands of Georgian lari unless otherwise stated)

35. Related party transactions (continued)

	2016		2015		
	Parent	*Entities under common control**	*Parent*	*Entities under common control**	*Other*
Income and expenses					
Insurance premium earned	128	7,476	2,066	3,650	–
Interest income on current and deposit accounts in banks	–	1,466	509	243	–
Interest Income on available-for-sale financial assets	–	263	–	125	31
Interest Income on loans	120	–	–	424	–
Other operating income	–	75	–	131	–
General and administrative expenses	–	(559)	(288)	(179)	–
Acquisition costs, net of reinsurance	–	(402)	(43)	(94)	–
Interest expense on borrowings	–	–	(35)	(25)	–
Salaries and other employee benefits	–	(73)	–	(68)	–
Foreign exchange and translation loses	–	(1,144)	–	(8,611)	–
	248	**7,102**	**2,209**	**(4,404)**	**31**

* Entities under common control include BGEO Group plc subsidiaries.

Compensation of key management personnel (2016: 11 persons; 2015:11 persons; 1 January 2015: 11 persons) comprised the following:

	2016	*2015*
Salaries and bonuses	2,731	2,256
Share-based payments compensation	211	86
Total key management compensation	**2,942**	**2,342**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information

Consolidation schedule for the statement of financial position:

	2016			
	Parent company	*Subsidiaries*	*Intercompany balances and consolidation adjustments*	*Total*
Assets				
Cash and cash equivalents	4,036	313	−	**4,349**
Bank deposits	20,986	3,942	−	**24,928**
Available-for-sale financial assets	3,224	165	−	**3,389**
Insurance and reinsurance receivables	23,162	130	(284)	**23,008**
Loan issued	39	2,430	(2,469)	**−**
Reinsurance assets	13,161	−	−	**13,161**
Current income tax assets	−	273	−	**273**
Deferred income tax assets	854	226	−	**1,080**
Deferred acquisition costs	2,673	−	−	**2,673**
Investment property	845	−	−	**845**
Property and equipment	3,954	5,185	−	**9,139**
Goodwill and other intangible assets	14,471	1	−	**14,472**
Pension fund assets	16,441	−	−	**16,441**
Other assets	1,932	945	(110)	**2,767**
Investment in subsidiaries	14,520	−	(14,520)	**−**
Total assets	**120,298**	**13,610**	**(17,383)**	**116,525**
Equity				
Share capital	1,889	14,485	(14,485)	**1,889**
Additional paid-in capital	6,744	−	243	**6,987**
Other reserves	421	45	(45)	**421**
Retained earnings	33,088	(2,405)	(233)	**30,450**
Total equity	**42,142**	**12,125**	**(14,520)**	**39,747**
Liabilities				**−**
Insurance contract liabilities	41,264	278	−	**41,542**
Derivative financial liabilities	1,144	−	−	**1,144**
Other insurance liabilities	9,262	335	−	**9,597**
Current income tax liabilities	1,273	90	−	**1,363**
Borrowings	2,430	39	(2,469)	**−**
Pension fund liability	16,441	−	−	**16,441**
Other liabilities	6,342	743	(394)	**6,691**
Total liabilities	**78,156**	**1,485**	**(2,863)**	**76,778**
Total equity and liabilities	**120,298**	**13,610**	**(17,383)**	**116,525**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

	2015				*As at 1 January 2015*			
	Parent company	***Subsidiaries***	***Intercompany balances and consolidation adjustments***	***Total***	***Parent company***	***Subsidiaries***	***Intercompany balances and consolidation adjustments***	***Total***
Assets								
Cash and cash equivalents	2,122	613	−	**2,735**	2,652	36	−	**2,688**
Bank deposits	14,893	3,090	−	**17,983**	12,655	−	−	**12,655**
Available-for-sale financial assets	2,583	−	−	**2,583**	−	−	−	**−**
Insurance and reinsurance receivables	17,862	303	(287)	**17,878**	18,072	−	(244)	**17,828**
Loan issued	4,517	2,294	(1,576)	**5,235**	10,949	62	(5,795)	**5,216**
Reinsurance assets	13,826	12	(12)	**13,826**	11,290	−	−	**11,290**
Current income tax assets	36	263	−	**299**	−	82	−	**82**
Deferred income tax assets	666	779	−	**1,445**	133	568	−	**701**
Deferred acquisition costs	1,915	−	−	**1,915**	1,418	−	−	**1,418**
Property and equipment	3,410	5,138	−	**8,548**	3,137	5,575	−	**8,712**
Goodwill and other intangible assets	14,247	1	−	**14,248**	13,675	−	−	**13,675**
Pension fund assets	13,706	−	−	**13,706**	11,289	−	−	**11,289**
Other assets	1,913	1,050	−	**2,963**	1,637	1,017	−	**2,654**
Investment in subsidiaries	14,520	−	(14,520)	**−**	3,863	−	(3,863)	**−**
Total assets	**106,216**	**13,543**	**(16,395)**	**103,364**	**90,770**	**7,340**	**(9,902)**	**88,208**
Equity								
Share capital	1,889	14,485	(14,485)	**1,889**	1,600	5,478	(5,478)	**1,600**
Additional paid-in capital	6,744	−	243	**6,987**	2,883	−	−	**2,883**
Other reserves	358	45	(45)	**358**	85	45	(45)	**85**
Retained earnings	26,754	(2,713)	(233)	**23,808**	22,865	(4,305)	1,660	**20,220**
Total equity	**35,745**	**11,817**	**(14,520)**	**33,042**	**27,433**	**1,218**	**(3,863)**	**24,788**
Liabilities								
Insurance contract liabilities	37,438	546	(20)	**37,964**	27,986	−	−	**27,986**
Derivative financial liabilities	−	−	−	**−**	1,768	−	−	**1,768**
Other insurance liabilities	9,051	426	−	**9,477**	15,349	−	−	**15,349**
Current income tax liabilities	663	−	−	**663**	527	−	−	**527**
Borrowings	1,378	198	(1,576)	**−**	2,960	5,765	(5,795)	**2,930**
Pension fund liability	13,706	−	−	**13,706**	11,289	−	−	**11,289**
Other liabilities	8,235	556	(279)	**8,512**	3,458	357	(244)	**3,571**
Total liabilities	**70,471**	**1,726**	**(1,875)**	**70,322**	**63,337**	**6,122**	**(6,039)**	**63,420**
Total equity and liabilities	**106,216**	**13,543**	**(16,395)**	**103,364**	**90,770**	**7,340**	**(9,902)**	**88,208**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Consolidation schedule for the income statement:

	2016				2015			
	Parent company	*Subsidiaries*	*Intercompany transactions*	*Total*	*Parent company*	*Subsidiaries*	*Intercompany transactions*	*Total*
Gross earned premiums on insurance contracts	70,782	257	(8)	**71,031**	67,466	499	(134)	**67,831**
Reinsurers' share of gross earned premiums on insurance contracts	(20,640)	–	–	**(20,640)**	(21,289)	(90)	90	**(21,289)**
Net insurance revenue	**50,142**	**257**	**(8)**	**50,391**	**46,177**	**409**	**(44)**	**46,542**
Interest Income	2,636	695	(185)	**3,146**	2,088	396	(263)	**2,221**
Other operating income	1,223	643	(115)	**1,751**	957	770	(103)	**1,624**
Other revenue	**3,859**	**1,338**	**(300)**	**4,897**	**3,045**	**1,166**	**(366)**	**3,845**
Total revenue	**54,001**	**1,595**	**(308)**	**55,288**	**49,222**	**1,575**	**(410)**	**50,387**
Gross insurance benefits and claims paid	(27,300)	(83)	–	**(27,383)**	(24,769)	(156)	29	**(24,896)**
Reinsurers' share of gross insurance benefits and claims paid	7,912	–	–	**7,912**	4,969	29	(29)	**4,969**
Gross change in insurance contracts liabilities	725	68	(12)	**781**	(5,202)	204	(18)	**(5,016)**
Reinsurers' share of gross change in insurance contracts liabilities	(532)	(12)	12	**(532)**	2,772	(18)	18	**2,772**
Claim settlement expenses	(780)	–	–	**(780)**	(545)	–	–	**(545)**
Income from regress and salvages	1,899	–	–	**1,899**	2,615	–	–	**2,615**
Net insurance claims	**(18,076)**	**(27)**	**–**	**(18,103)**	**(20,160)**	**59**	**–**	**(20,101)**
Acquisition costs, net of reinsurance	(6,448)	(9)	–	**(6,457)**	(5,897)	–	44	**(5,853)**
Salaries and other employee benefits	(8,275)	(152)	–	**(8,427)**	(6,663)	(322)	–	**(6,985)**
General and administrative expenses	(3,062)	(184)	123	**(3,123)**	(2,981)	(148)	103	**(3,026)**
Depreciation and amortization expenses	(651)	(123)	–	**(774)**	(690)	(143)	–	**(833)**
Impairment charge	(1,155)	267	–	**(888)**	(886)	(33)	–	**(919)**
Interest expense	(162)	(23)	185	**–**	(206)	(128)	263	**(71)**
Foreign exchange loses	(100)	(195)	–	**(295)**	(6,835)	(783)	–	**(7,618)**
Other operating expenses	(48)	(93)	–	**(141)**	(240)	(487)	–	**(727)**
Other expenses	**(19,901)**	**(512)**	**308**	**(20,105)**	**(24,398)**	**(2,044)**	**410**	**(26,032)**
Total claims and expenses	**(37,977)**	**(539)**	**308**	**(38,208)**	**(44,558)**	**(1,985)**	**410**	**(46,133)**
Income before tax	**16,024**	**1,056**	**–**	**17,080**	**4,664**	**(410)**	**–**	**4,254**
Income tax expense	(2,570)	(748)	–	**(3,318)**	(775)	109	–	**(666)**
Net income	**13,454**	**308**	**–**	**13,762**	**3,889**	**(301)**	**–**	**3,588**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Consolidation schedule for the statement of comprehensive income:

	2016				2015			
	Parent company	*Subsidiaries*	*Intercompany transactions*	*Total*	*Parent company*	*Subsidiaries*	*Intercompany transactions*	*Total*
Net Income for the year	**13,454**	**308**	**−**	**13,762**	**3,889**	**(301)**	**−**	**3,588**
Other comprehensive income								
Other comprehensive income not to be reclassified to profit or loss in subsequent periods								
Revaluation of property, plant and equipment	−	−	−	**−**	321	−	−	**321**
Income tax effect	63	−	−	**63**	(48)	−	−	**(48)**
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**63**	**−**	**−**	**63**	**273**	**−**	**−**	**273**
Other comprehensive income for the year, net of tax	**63**	**−**	**−**	**63**	**273**	**−**	**−**	**273**
Total comprehensive income for the year, net of tax	**13,517**	**308**	**−**	**13,825**	**4,162**	**(301)**	**−**	**3,861**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Consolidation schedule for the statement of cash flows:

	2016				2015			
	Parent company	*Subsidiaries*	*Intercompany transactions*	*Total*	*Parent company*	*Subsidiaries*	*Intercompany transactions*	*Total*
Cash flows from operating activities								
Insurance premium received	65,324	407	–	**65,731**	58,747	365	(11)	**59,101**
Reinsurance premium paid	(14,346)	–	–	**(14,346)**	(13,724)	–	441	**(13,283)**
Insurance benefits and claims paid	(25,728)	(82)	–	**(25,810)**	(22,096)	(155)	4	**(22,247)**
Reinsurance claims received	5,999	–	–	**5,999**	3,856	445	(445)	**3,856**
Acquisition costs paid	(5,824)	(8)	–	**(5,832)**	(4,550)	–	–	**(4,550)**
Salaries and benefits paid	(9,060)	(124)	–	**(9,184)**	(7,458)	(132)	–	**(7,590)**
Interest received	1,243	96	(33)	**1,306**	1,196	143	(1)	**1,338**
Interest paid	–	(40)	40	**–**	(113)	(1)	1	**(113)**
Operating taxes paid	(237)	(30)	–	**(267)**	(78)	(54)	–	**(132)**
Other operating income received	776	601	(116)	**1,261**	1,096	546	(82)	**1,560**
Other operating expenses paid	(2,801)	(164)	115	**(2,850)**	(3,541)	(534)	93	**(3,982)**
Net cash flows from operating activities before income tax	**15,346**	**656**	**6**	**16,008**	**13,335**	**623**	**–**	**13,958**
Income tax paid	(2,027)	(102)	–	**(2,129)**	(1,080)	(465)	–	**(1,545)**
Net cash flows from operating activities	**13,319**	**554**	**6**	**13,879**	**12,255**	**158**	**–**	**12,413**
Cash flows used in investing activities								
Acquisition of subsidiary, net of cash acquired	–	–	–	**–**	(4,150)	181	76	**(3,893)**
Additional contribution in capital of subsidiaries	–	–	–	**–**	(230)	–	230	**–**
Purchase of premises and equipment	(892)	(149)	1	**(1,040)**	(264)	(71)	–	**(335)**
Purchase of intangible assets	(455)	–	–	**(455)**	(575)	(3)	–	**(578)**
Loan issued	(7,170)	(1,891)	2,061	**(7,000)**	(3,494)	(3,034)	2,464	**(4,064)**
Proceeds from repayment of loan issued	1,368	1,927	(1,394)	**1,901**	5,214	800	(897)	**5,117**
Settlement of forward agreements	–	–	–	**–**	(7,165)	–	–	**(7,165)**
Placement of / (proceeds from) bank deposits	(4,795)	(366)	–	**(5,161)**	(1,859)	1,905	–	**46**
Purchase of available-for-sale assets	(381)	(150)	–	**(531)**	(2,399)	–	–	**(2,399)**
Net cash flows from used in investing activities	**(12,325)**	**(629)**	**668**	**(12,286)**	**(14,922)**	**(222)**	**1,873**	**(13,271)**
Cash flows from financing activities								
Proceeds from issuance of ordinary shares	–	–	–	**–**	4,150	306	(306)	**4,150**
Proceeds from borrowings	1,800	261	(2,061)	**–**	4,000	464	(2,464)	**2,000**
Repayment of borrowings	(910)	(477)	1,387	**–**	(5,946)	(133)	897	**(5,182)**
Net cash flows from financing activities	**890**	**(216)**	**(674)**	**–**	**2,204**	**637**	**(1,873)**	**968**
Effect of exchange rates changes on cash and cash equivalents	30	(9)	–	**21**	(67)	4	–	**(63)**
Net increase in cash and cash equivalents	**1,914**	**(300)**	**–**	**1,614**	**(530)**	**577**	**–**	**47**
Cash and cash equivalents, 1 January	2,122	613	–	**2,735**	2,652	36	–	**2,688**
Cash and cash equivalents, 31 December	**4,036**	**313**	**–**	**4,349**	**2,122**	**613**	**–**	**2,735**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Cash and cash equivalents

Cash and cash equivalents as of 31 December comprise:

	2016			
	Parent company	*Subsidiaries*	*Intercompany balances*	*Total*
Cash on hand	30	–	–	**30**
Current accounts	4,006	313	–	**4,319**
Total cash and cash equivalents	**4,036**	**313**	**–**	**4,349**

	2015			
	Parent company	*Subsidiaries*	*Intercompany balances*	*Total*
Cash on hand	12	8	–	**20**
Current accounts	2,110	605	–	**2,715**
Total cash and cash equivalents	**2,122**	**613**	**–**	**2,735**

	As at 1 January 2015			
	Parent company	*Subsidiaries*	*Intercompany balances*	*Total*
Cash on hand	30	–	–	**30**
Current accounts	2,622	36	–	**2,658**
Total cash and cash equivalents	**2,652**	**36**	**–**	**2,688**

Bank deposits

Bank deposits as of 31 December comprise:

	2016			
	Parent company	*Subsidiaries*	*Intercompany balances*	*Total*
JSC Bank of Georgia	11,524	2,078	–	**13,602**
JSC Bank Republic	4,019	–	–	**4,019**
JSC Tera Bank	2,069	748	–	**2,817**
JSC TBC Bank	1,343	494		**1,837**
JSC Liberty Bank	1,365	224	–	**1,589**
JSC Finca Bank	410	–	–	**410**
JSC Basis Bank	–	398	–	**398**
JSC Halyk Bank	256	–	–	**256**
JSC PrivatBank	–	–	–	**–**
JSC BTA Bank	–	–	–	**–**
JSC Bank Constanta	–	–	–	**–**
Total bank deposits	**20,986**	**3,942**	**–**	**24,928**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Bank deposits (continued)

	2015			
	Parent company	***Subsidiaries***	***Intercompany balances***	***Total***
JSC Bank of Georgia	6,925	2,419	−	**9,344**
JSC Bank Republic	1,125	−	−	**1,125**
JSC Tera Bank	2,697	671	−	**3,368**
JSC TBC Bank	3,161	−	−	**3,161**
JSC Liberty Bank	666	−	−	**666**
JSC Finca Bank	319	−	−	**319**
JSC Basis Bank	−	−	−	**−**
JSC Halyk Bank	−	−	−	**−**
JSC PrivatBank	−	−	−	**−**
JSC BTA Bank	−	−	−	**−**
JSC Bank Constanta	−	−	−	**−**
Total bank deposits	**14,893**	**3,090**	**−**	**17,983**

	As at 1 January 2015			
	Parent company	***Subsidiaries***	***Intercompany balances***	***Total***
JSC Bank of Georgia	2,563	−	−	**2,563**
JSC Bank Republic	−	−	−	**−**
JSC Tera Bank	2,149	−	−	**2,149**
JSC TBC Bank	2,922	−	−	**2,922**
JSC Liberty Bank	575	−	−	**575**
JSC Finca Bank	−	−	−	**−**
JSC Basis Bank	1,020	−	−	**1,020**
JSC Halyk Bank	−	−	−	**−**
JSC PrivatBank	1,503	−	−	**1,503**
JSC BTA Bank	1,064	−	−	**1,064**
JSC Bank Constanta	859	−	−	**859**
Total bank deposits	**12,655**	**−**	**−**	**12,655**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Property and equipment

Parent company	*Land and buildings*	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Total*
Cost or revalued amount						
31 December 2015	**2,576**	**641**	**997**	**286**	**163**	**4,663**
Additions	16	190	217	250	398	**1,071**
Disposals	(140)	(18)	(65)	(110)	(20)	**(353)**
30 December 2016	**2,452**	**813**	**1,149**	**426**	**541**	**5,381**
Accumulated depreciation						
31 December 2015	**−**	**405**	**698**	**142**	**8**	**1,253**
Depreciation charge	25	59	123	56	14	**277**
Disposals	(39)	(5)	(16)	(43)	−	**(103)**
30 December 2016	**(14)**	**459**	**805**	**155**	**22**	**1,427**
Net book value						
31 December 2015	**2,576**	**236**	**299**	**144**	**155**	**3,410**
30 December 2016	**2,466**	**354**	**344**	**271**	**519**	**3,954**

Subsidiaries	*Land and buildings*	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Total*
Cost or revalued amount						
31 December 2015	**4,945**	**86**	**130**	**−**	**2**	**5,163**
Additions	167	2	8	−	−	**177**
Disposals	(3)	−	(5)	−	−	**(8)**
30 December 2016	**5,109**	**88**	**133**	**−**	**2**	**5,332**
Accumulated depreciation						
31 December 2015	**−**	**10**	**15**	**−**	**−**	**25**
Depreciation charge	98	9	15	−	1	**123**
Disposals	−	−	(1)	−	−	**(1)**
30 December 2016	**98**	**19**	**29**	**−**	**1**	**147**
Net book value						
31 December 2015	**4,945**	**76**	**115**	**−**	**2**	**5,138**
30 December 2016	**5,011**	**69**	**104**	**−**	**1**	**5,185**

(Thousands of Georgian lari unless otherwise stated)

Additional financial information (continued)

Property and equipment (continued)

The movements in property and equipment in 2015 were as follows:

Parent company	*Land and buildings*	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Total*
Cost or revalued amount						
1 January 2015	**2,461**	**613**	**874**	**209**	**149**	**4,306**
Additions	4	30	135	88	14	**271**
Disposals	–	(2)	(12)	(11)	–	**(25)**
Revaluation*	111	–	–	–	–	**111**
31 December 2015	**2,576**	**641**	**997**	**286**	**163**	**4,663**
Accumulated depreciation						
1 January 2015	**185**	**313**	**555**	**113**	**3**	**1,169**
Depreciation charge	25	92	146	37	5	**305**
Revaluation*	(210)	–	–	–	–	**(210)**
Disposals	–	–	(3)	(8)	–	**(11)**
31 December 2015	**–**	**405**	**698**	**142**	**8**	**1,253**
Net book value						
1 January 2015	**2,276**	**300**	**319**	**96**	**146**	**3,137**
31 December 2015	**2,576**	**236**	**299**	**144**	**155**	**3,410**

* Income tax benefit relating to revaluation of Office Buildings through other comprehensive income comprises GEL 48.

Subsidiaries	*Land and buildings*	*Furniture and fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*Total*
Cost or revalued amount						
1 January 2015	**5,622**	**155**	**–**	**–**	**–**	**5,777**
Acquisition through business combinations (Note 5)	–	–	–	–	2	**2**
Additions	18	21	130	–	–	**169**
Disposals	–	(90)	–	–	–	**(90)**
Revaluation	(695)	–	–	–	–	**(695)**
31 December 2015	**4,945**	**86**	**130**	**–**	**2**	**5,163**
Accumulated depreciation						
1 January 2015	**196**	**6**	**–**	**–**	**–**	**202**
Depreciation charge	124	4	15	–	–	**143**
Revaluation	(320)	–	–	–	–	**(320)**
Disposals	–	–	–	–	–	**–**
31 December 2015	**–**	**10**	**15**	**–**	**–**	**25**
Net book value						
1 January 2015	**5,426**	**149**	**–**	**–**	**–**	**5,575**
31 December 2015	**4,945**	**76**	**115**	`1–	**2**	**5,138**

Giorgi Baratashvili — General Director

Lasha Khakhutaishvili — Financial Director

29 March 2017