

# **JSC Insurance Company Aldagi Group**

## **Consolidated financial statements**

*for the year ended 31 December 2017  
together with independent auditor's report*

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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 2017, 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 2017 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.

### ***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.

**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

9 March 2018

**Consolidated statement of financial position****As at 31 December 2017***(Thousands of Georgian lari)*

	Notes	2017	2016 (restated)	As at 1 January 2016 (restated)
<b>Assets</b>				
Cash and cash equivalents	5	4,186	4,349	2,735
Bank deposits	6	25,968	24,928	17,983
Available-for-sale financial assets	7	4,180	3,389	2,583
Insurance and reinsurance receivables	8	28,426	23,008	17,878
Loan issued		100	–	5,235
Ceded share of technical provisions	18	20,671	13,161	13,826
Current income tax assets		–	273	299
Deferred income tax assets	9	878	1,080	1,508
Deferred acquisition costs	10	2,916	2,673	1,915
Investment property	11	845	845	–
Property and equipment	12	10,627	8,718	8,127
Goodwill and other intangible assets	13	14,335	14,472	14,248
Pension fund assets	14	18,536	16,441	13,706
Other assets	16	3,173	2,767	2,963
<b>Total assets</b>		<b>134,841</b>	<b>116,104</b>	<b>103,006</b>
<b>Equity</b>				
	17			
Share capital		1,889	1,889	1,889
Additional paid-in capital		6,987	6,987	6,987
Retained earnings		39,750	30,450	23,808
<b>Total equity</b>		<b>48,626</b>	<b>39,326</b>	<b>32,684</b>
<b>Liabilities</b>				
Gross technical provisions	18	50,272	41,542	37,964
Derivative financial liabilities	19	130	1,144	–
Other insurance liabilities	20	12,095	9,597	9,477
Current income tax liabilities		30	1,363	663
Pension fund liabilities	14	18,536	16,441	13,706
Other liabilities	21	5,152	6,691	8,512
<b>Total liabilities</b>		<b>86,215</b>	<b>76,778</b>	<b>70,322</b>
<b>Total equity and liabilities</b>		<b>134,841</b>	<b>116,104</b>	<b>103,006</b>

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

Giorgi Baratashvili

General Director

Lasha Khakhutaishvili

Financial Director

9 March 2018

The accompanying notes on pages 7 to 47 are an integral part of these consolidated financial statements.

**Consolidated statement of comprehensive income****For the year ended 31 December 2017***(Thousands of Georgian lari)*

	<i>Notes</i>	<b>2017</b>	<b>2016 (reclassified)</b>
Gross earned premiums on insurance contracts		85,922	71,031
Reinsurers' share of earned premiums on insurance contracts		(23,152)	(20,640)
<b>Net insurance revenue</b>	23	<b>62,770</b>	<b>50,391</b>
Gross insurance claims expenses		(41,540)	(26,602)
Reinsurer's share of insurance claims expenses		15,554	7,380
Claim settlement expenses		(1,332)	(780)
Income from regress and salvages		2,220	1,899
<b>Net insurance claims and claims handling expenses</b>	24	<b>(25,098)</b>	<b>(18,103)</b>
Acquisition costs, net of reinsurance	25	(9,100)	(6,293)
<b>Net underwriting profit</b>		<b>28,572</b>	<b>25,995</b>
Investment income	26	2,965	3,146
Pension fund asset management fee		525	483
<b>Investment profit</b>		<b>3,490</b>	<b>3,629</b>
Salaries and other employee benefits	27	(8,701)	(8,427)
General and administrative expenses	28	(3,360)	(3,123)
Depreciation and amortization expenses	12, 13	(855)	(774)
Impairment charge	15	(718)	(888)
Net other operating income	29	639	963
<b>Other expenses</b>		<b>(12,995)</b>	<b>(12,249)</b>
<b>Operating profit</b>		<b>19,067</b>	<b>17,375</b>
Foreign exchange gains (losses)		208	(295)
<b>Pre-tax profit</b>		<b>19,275</b>	<b>17,080</b>
Income tax expense	9	(2,975)	(3,318)
<b>Net profit</b>		<b>16,300</b>	<b>13,762</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>16,300</b>	<b>13,762</b>

The accompanying notes on pages 7 to 47 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity****For the year ended 31 December 2017***(Thousands of Georgian lari)*

	<i>Notes</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>1 January 2016</b>		<b>1,889</b>	<b>6,987</b>	<b>358</b>	<b>23,808</b>	<b>33,042</b>
Change in accounting policy (Note 3)		–	–	(358)	–	(358)
<b>1 January 2016 (restated)</b>		<b>1,889</b>	<b>6,987</b>	–	<b>23,808</b>	<b>32,684</b>
Total profit and comprehensive income (restated) (Note 3)		–	–	–	13,762	<b>13,762</b>
Dividends to the shareholder		–	–	–	(7,120)	(7,120)
<b>31 December 2016 (restated)</b>		<b>1,889</b>	<b>6,987</b>	–	<b>30,450</b>	<b>39,326</b>
Total profit and comprehensive income		–	–	–	16,300	<b>16,300</b>
Dividends to the shareholder	17	–	–	–	(7,000)	(7,000)
<b>31 December 2017</b>		<b>1,889</b>	<b>6,987</b>	–	<b>39,750</b>	<b>48,626</b>

*The accompanying notes on pages 7 to 47 are an integral part of these consolidated financial statements.*

**Consolidated statement of cash flows****For the year ended 31 December 2017***(Thousands of Georgian lari)*

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Insurance premiums received		77,287	65,731
Reinsurance premiums paid		(15,796)	(14,346)
Insurance benefits and claims paid		(33,059)	(25,810)
Reinsurance claims received		8,233	5,999
Acquisition costs paid		(9,205)	(5,832)
Salaries and benefits paid		(8,934)	(9,184)
Interest received		2,115	1,306
Operating taxes paid		(149)	(267)
Other operating income received		1,037	1,261
Other operating expenses paid		(4,708)	(2,850)
<b>Net cash flows from operating activities before income tax</b>		<b>16,821</b>	<b>16,008</b>
Income tax paid		(3,884)	(2,129)
<b>Net cash flows from operating activities</b>		<b>12,937</b>	<b>13,879</b>
<b>Cash flows from (used in) investing activities</b>			
Purchase of premises and equipment		(2,458)	(1,040)
Proceeds from sale of premises and equipment		37	–
Purchase of intangible assets		(676)	(455)
Loan issued		(100)	(7,000)
Proceeds from repayment of loan issued		–	1,901
Settlement of forward agreements		(1,535)	–
Net placement of bank deposits		(211)	(5,161)
Purchase of available-for-sale assets		(3,494)	(531)
Proceeds from available-for-sale assets		2,586	
<b>Net cash flows from used in investing activities</b>		<b>(5,851)</b>	<b>(12,286)</b>
<b>Cash flows from financing activities</b>			
Dividend paid	17	(7,000)	–
<b>Net cash flows from financing activities</b>		<b>(7,000)</b>	<b>–</b>
Effect of exchange rates changes on cash and cash equivalents		(249)	21
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(163)</b>	<b>1,614</b>
Cash and cash equivalents, 1 January	5	4,349	2,735
<b>Cash and cash equivalents, 31 December</b>	<b>5</b>	<b>4,186</b>	<b>4,349</b>

The accompanying notes on pages 7 to 47 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”).

The Company possesses two types of insurance licences issued by the Insurance State Supervision Service of Georgia (ISSSG) 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”).

<i>Subsidiary</i>	<i>Ownership/voting</i>		<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>31 December 2017</i>	<i>31 December 2016</i>			
Aliance, LLC	100%	100%	1 March 2000	Other	30 April 2012
Green Way, LLC	100%	100%	27 December 2010	Services	30 April 2012
Premium Residence, LLC	100%	100%	9 July 2010	Tourism & Hospitality	30 April 2012
JSC Insurance Company Tao	100%	100%	22 August 2007	Insurance	1 May 2015
JSC AMF Georgia	100%	n/a	17 November 2017	Mortgage Fund	n/a

As at 31 December 2017 the Group was 100% owned by JSC BGEO Investments (2016: 100% owned by JSC BG Financial). As at 31 December 2017 and 2016, the Group’s ultimate parent is BGEO Group 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).

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. The Group presents its consolidated statement of financial position broadly in order of liquidity.

## 3. Summary of significant accounting policies

### Change in presentation of consolidated statement of comprehensive income

In 2017, the Group has decided to present single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections instead of two separate statements of profit or loss and other comprehensive income.

The Group changed the reporting format of consolidated statement of comprehensive income. Certain line items were reorganised to provide a more relevant presentation of the Group’s underwriting, investment and operating functions that is more consistent with best presentation practice in insurance industry.

(Thousands of Georgian lari unless otherwise stated)

**3. Summary of significant accounting policies (continued)****Change in presentation of consolidated statement of comprehensive income (continued)**

Due to change in the presentation of consolidated statement of comprehensive income, the following reclassifications were made to the year ended 31 December 2016 comprehensive statement of comprehensive income to conform to the 31 December 2017 presentations:

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As reclassified</i>
<b>Consolidated statement of comprehensive income</b>			
Gross insurance benefits and claims paid	(27,383)	27,383	–
Reinsurers' share of gross insurance benefits and claims paid	7,912	(7,912)	–
Gross change in insurance contracts liabilities	781	(781)	–
Reinsurers' share of gross change in insurance contracts liabilities	(532)	532	–
Gross insurance claims expenses	–	(26,602)	(26,602)
Reinsurer's share of insurance claims expenses	–	7,380	7,380
Other operating income	1,751	(1,751)	–
Other operating expenses	(141)	141	–
Net other operating income	–	963	963
Acquisition costs, net of reinsurance	(6,457)	164	(6,293)
Pension fund asset management fee	–	483	483

**Adoption of new or revised standards and interpretations and changes in accounting policies and disclosures***IAS 16 Property, Plant and Equipment*

During the year, the Group changed its accounting policy with respect to the office buildings. The Group now applies the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, the Group applied the revaluation model, where office buildings were carried at the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group believes that cost model is provides more reliable and more meaningful presentation for investors since (1) it enhances comparability for the investors as the application of cost model is a market practice across insurance industry (2) it more closely aligns the accounting with the business model around that category of property and equipment. The change of accounting policy has been accounted for retrospectively. The effect of change in accounting policy on the consolidated statement of financial position was as follows:

	<b>31 December 2016</b>	<b>1 January 2016</b>
<b>Assets</b>		
Property and equipment	(421)	(421)
Deferred tax asset	–	63
<b>Total assets</b>	<b>(421)</b>	<b>(358)</b>
<b>Equity</b>		
Other reserves	(421)	(358)
<b>Total equity</b>	<b>(421)</b>	<b>(358)</b>

Effect on the consolidated statement of comprehensive income for the year ended 31 December 2016:

	<b>31 December 2016</b>
<b>Other comprehensive income</b>	
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	
- Revaluation of property, plant and equipment	–
- Income tax effect	(63)
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>(63)</b>
<b>Other comprehensive income for the year, net of tax</b>	<b>(63)</b>
<b>Total comprehensive income for the year, net of tax</b>	<b>(63)</b>

Change in accounting policy did not have any material impact on profit or loss for the year ended 31 December 2016.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Adoption of new or revised standards and interpretations and changes in accounting policies and disclosures (continued)

##### *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continue to fall outside the scope of IFRS 15 and are regulated by the other applicable standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach.

The Group early adopted the new revenue recognition standard effective from 1 January 2017 using the modified retrospective approach. Given insurance contracts that contribute majority of the Group's revenue are scoped out of IFRS 15, the change did not have material impact on the Group.

The Group has adopted a number of amended IFRS which are effective for annual periods beginning on or after 1 January 2017 (including amendments to IAS 7 and IAS 12 and amendments to IFRS 12 issued in course of annual improvement cycles 2014-2016), none of which had any impact on the Group.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. 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.

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.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### 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.

#### 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 ceded share of technical provisions 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.

#### Gross technical provisions

Gross technical provisions 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 statement of comprehensive income by setting up a provision for premium deficiency.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Ceded share of technical provisions

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

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

#### 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 statement of comprehensive income. However, interest calculated using the effective interest method is recognised in the consolidated statement of comprehensive income.

#### 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 consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### 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 statement of comprehensive income.

##### *Assets carried at amortized cost*

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be 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 statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

#### 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 31.

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

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

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

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 statement of comprehensive income within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of comprehensive income and presented as net gains or losses from revaluation of investment properties.

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 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 statement of comprehensive income as an expense.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Property and equipment (continued)

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:

	<u>Years</u>
Office buildings	50-100
Furniture and fixtures	5-10
Computers and equipment	5-10
Motor vehicles	5

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

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 statement of comprehensive income 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.

#### 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, other BGEO Group plc entities and 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.

*(Thousands of Georgian lari unless otherwise stated)*

### **3. Summary of significant accounting policies (continued)**

#### **Taxation**

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

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (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.

#### **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.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Share-based payment transactions

Senior executives of the Group receive share-based remuneration settled in equity instruments of the Group's ultimate parent, 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.

#### 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 statement of comprehensive income 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 statement of comprehensive income as foreign exchange gains/(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 2017, 31 December 2016 and 31 December 2015 were 2.5922, 2.6468 and 2.3949 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 statement of comprehensive income 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 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- ▶ The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- ▶ A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period);
- ▶ Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;
- ▶ The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- ▶ The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- ▶ Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of comprehensive income, but are recognised directly on the balance sheet;
- ▶ Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense;
- ▶ Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group is currently assessing the impact. The Group is currently evaluating the impact.

#### *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).

#### *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. During 2017, there had been no significant change in the activities of the Group that requires reassessment. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

#### *IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. 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.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

##### *Transfers of Investment Property – Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Amendment is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact.

#### **Annual improvements 2014-2016 cycle**

##### *IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

- ▶ An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- ▶ If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. These amendments are not applicable to the Group.

(Thousands of Georgian lari unless otherwise stated)

### 3. Summary of significant accounting policies (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

##### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group is currently assessing the impact.

### 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.

The ultimate cost of IBNR is estimated by using a range of standard actuarial claims projection techniques, such as Chain ladder 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, chain ladder technique is used – the main assumption underlying this technique is that a company's past claims development experience 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 2017 was GEL 18,351 (2016: GEL 12,173). For more details on insurance claims provisions please refer to Note 18.

(Thousands of Georgian lari unless otherwise stated)

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

##### Estimation uncertainty (continued)

###### *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 2017 was GEL 3,836 (2016: GEL 7,204). For further details on allowance for impairment of insurance receivables and reinsurance receivables are disclosed in Note 8 and 15.

###### *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 unit 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 2017 and 31 December 2016. The key assumptions used to determine carrying amount of goodwill are provided in Note 13.

#### 5. Cash and cash equivalents

Cash and cash equivalents as of 31 December comprise:

	<u>2017</u>	<u>2016</u>
Cash on hand	56	30
Current accounts	4,130	4,319
<b>Total cash and cash equivalents</b>	<b><u>4,186</u></b>	<b><u>4,349</u></b>

As of 31 December 2017 cash and cash equivalents of the Company on stand-alone basis comprise GEL 3,918 (2016: GEL 4,036). The ISSSG requirement is to maintain minimum level of cash and cash equivalents at 10% of the technical provisions subject to reservation as defined by ISSSG regulatory reserve requirement resolution, which as of the reporting date amounts to GEL 2,986 (2016: GEL 2,910). Pension fund cash and cash equivalents which comprise GEL 1,952 (2016: GEL 2,202) (Note 14) are also eligible in minimum level requirements.

#### 6. Bank deposits

Bank deposits as of 31 December comprise:

	<u>2017</u>	<u>2016</u>
JSC Bank of Georgia	16,095	13,602
JSC TBC Bank	4,442	1,837
JSC VTB Bank	2,836	–
JSC Finca Bank	781	410
JSC Tera Bank	778	2,817
JSC Liberty Bank	756	1,589
JSC Halyk Bank	280	256
JSC Bank Republic	–	4,019
JSC Basis Bank	–	398
<b>Total bank deposits</b>	<b><u>25,968</u></b>	<b><u>24,928</u></b>

Bank deposits are represented by short-term (for 3 to 12 months) and medium-term placements with Georgian banks and earn annual interest of 9.5% to 12.5% (2016: 8.5% to 13.5%). Bank deposits placed with related party earn annual interest of 10.5% (2016: 8.5% to 11.5%).

The Group has pledged a part of its short-term deposits to fulfil collateral requirements in 2016. Refer to Note 19 for further details.

(Thousands of Georgian lari unless otherwise stated)

**7. Available-for-sale financial assets**

Available-for-sale financial assets as of 31 December 2017 comprise:

<b>2017</b>	<b>Carrying value</b>	<b>Currency</b>	<b>Maturity</b>	<b>Nominal rate</b>
JSC Bank of Georgia	3,028	GEL	June, 2020	11.0%
JSC M2 Real Estate	802	USD	October, 2019	7.5%
JSC Microfinance Organization Crystal	200	GEL	December, 2019	11.0%
JSC Microfinance Organization Swiss Capital	150	GEL	June, 2018	15.0%
<b>Total available-for-sale financial assets</b>	<b>4,180</b>			

Available-for-sale financial assets as of 31 December 2016 comprise:

<b>2016</b>	<b>Carrying value</b>	<b>Currency</b>	<b>Maturity</b>	<b>Nominal rate</b>
JSC M2 Real Estate	1,090	USD	March, 2017; October 2019	9.5%; 7.5%
JSC EVEX Medical Corporation	1,071	USD	May, 2017	9.5%
Georgian Water and Power, LLC	631	GEL	August, 2017	14.0%
Microfinance Organization Credo, LLC	332	GEL	April, 2017	15.0%
JSC Microfinance Organization Swiss Capital	265	USD	March, 2017	13.0%
<b>Total available-for-sale financial assets</b>	<b>3,389</b>			

**8. Insurance and reinsurance receivables**

Insurance and reinsurance receivables as of 31 December comprise:

	<b>2017</b>	<b>2016</b>
Due from policyholders	28,933	27,793
Due from reinsurers	3,329	2,419
	<b>32,262</b>	<b>30,212</b>
Less – allowance for impairment for amounts due from policyholders (Note 15)	(3,836)	(7,204)
<b>Total insurance and reinsurance receivables</b>	<b>28,426</b>	<b>23,008</b>

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

**9. Taxation**

The corporate income tax expenses comprise:

	<b>2017</b>	<b>2016</b>
Current tax charge	2,773	2,890
Deferred tax charge – origination and reversal of temporary differences	202	428
<b>Income tax expense</b>	<b>2,975</b>	<b>3,318</b>

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2017 (2016: 15%).

The effective income tax rate differs from the statutory income tax rates.

(Thousands of Georgian lari unless otherwise stated)

**9. Taxation (continued)**

As of 31 December a reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2017</u>	<u>2016</u>
<b>Income before tax</b>	<b>19,275</b>	<b>17,080</b>
Statutory tax rate	15%	15%
<b>Theoretical income tax expense at the statutory rate</b>	<b>2,892</b>	<b>2,570</b>
Non-taxable income	–	(236)
Effect of changes in tax legislation	–	747
Non-deductible expenses	83	237
<b>Income tax expense</b>	<b>2,975</b>	<b>3,318</b>

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became 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 2017 and 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 747 in profit or loss 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 2017 and 2016.

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

	<u>As at 1 January 2016</u>	<u>In profit or loss</u>	<u>As at 31 December 2016</u>	<u>In profit or loss</u>	<u>As at 31 December 2017</u>
<b>Tax effect of deductible temporary differences</b>					
Insurance receivables	1,498	(1,002)	496	(140)	356
Tax loss carried forward	691	(691)	–	–	–
Other assets	1,220	(723)	497	(62)	435
Investments	87	–	87	–	87
<b>Deferred tax assets</b>	<b>3,496</b>	<b>(2,416)</b>	<b>1,080</b>	<b>(202)</b>	<b>878</b>
<b>Tax effect of deductible temporary differences</b>					
Gross technical provisions	336	(336)	–	–	–
Property and equipment	120	(120)	–	–	–
Intangible assets	1,515	(1,515)	–	–	–
Other liabilities	17	(17)	–	–	–
<b>Deferred tax liabilities</b>	<b>1,988</b>	<b>(1,988)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net deferred tax assets</b>	<b>1,508</b>	<b>(428)</b>	<b>1,080</b>	<b>(202)</b>	<b>878</b>

(Thousands of Georgian lari unless otherwise stated)

## 9. Taxation (continued)

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.

## 10. Deferred acquisition costs

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

	<b>DAC</b>
<b>As at 1 January 2016</b>	<b>1,915</b>
Expenses deferred (Note 25)	1,475
Amortization (Note 25)	(717)
<b>At 31 December 2016</b>	<b>2,673</b>
Expenses deferred (Note 25)	1,236
Amortization (Note 25)	(993)
<b>At 31 December 2017</b>	<b>2,916</b>

## 11. Investment property

	<b>Investment Property</b>
<b>1 January 2016</b>	<b>–</b>
Additions	497
Net gain from revaluation of investment property (Note 29)	348
<b>31 December 2016</b>	<b>845</b>
<b>31 December 2017</b>	<b>845</b>

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 8 August 2017 and was carried out by professional valuator. As at 31 December 2017 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 31 for details on fair value measurements of investment property.

(Thousands of Georgian lari unless otherwise stated)

## 12. Property and equipment

The movements in property and equipment were as follows:

Cost	Land and buildings	Furniture and fixtures	Computers and equipment	Motor vehicles	Leasehold improvements	Total
<b>31 December 2016 (restated)</b>	<b>7,631</b>	<b>901</b>	<b>1,282</b>	<b>426</b>	<b>543</b>	<b>10,783</b>
Additions	1,834	91	242	206	71	2,444
Disposals	–	(23)	(70)	(148)	(18)	(259)
<b>31 December 2017</b>	<b>9,465</b>	<b>969</b>	<b>1,454</b>	<b>484</b>	<b>596</b>	<b>12,968</b>
<b>Accumulated depreciation</b>						
<b>31 December 2016 (restated)</b>	<b>575</b>	<b>478</b>	<b>834</b>	<b>155</b>	<b>23</b>	<b>2,065</b>
Depreciation charge	145	76	142	86	2	451
Disposals	–	(15)	(42)	(118)	–	(175)
<b>31 December 2017</b>	<b>720</b>	<b>539</b>	<b>934</b>	<b>123</b>	<b>25</b>	<b>2,341</b>
<b>Net book value</b>						
<b>31 December 2016 (restated)</b>	<b>7,056</b>	<b>423</b>	<b>448</b>	<b>271</b>	<b>520</b>	<b>8,718</b>
<b>31 December 2017</b>	<b>8,745</b>	<b>430</b>	<b>520</b>	<b>361</b>	<b>571</b>	<b>10,627</b>
<b>Cost</b>						
<b>1 January 2016 (restated)</b>	<b>7,591</b>	<b>727</b>	<b>1,127</b>	<b>286</b>	<b>165</b>	<b>9,896</b>
Additions	183	192	225	250	398	1,248
Disposals	(143)	(18)	(70)	(110)	(20)	(361)
<b>31 December 2016</b>	<b>7,631</b>	<b>901</b>	<b>1,282</b>	<b>426</b>	<b>543</b>	<b>10,783</b>
<b>Accumulated depreciation</b>						
<b>1 January 2016 (restated)</b>	<b>491</b>	<b>415</b>	<b>713</b>	<b>142</b>	<b>8</b>	<b>1,769</b>
Depreciation charge	123	68	138	56	15	400
Disposals	(39)	(5)	(17)	(43)	–	(104)
<b>31 December 2016</b>	<b>575</b>	<b>478</b>	<b>834</b>	<b>155</b>	<b>23</b>	<b>2,065</b>
<b>Net book value</b>						
<b>1 January 2016</b>	<b>7,100</b>	<b>312</b>	<b>414</b>	<b>144</b>	<b>157</b>	<b>8,127</b>
<b>31 December 2016</b>	<b>7,056</b>	<b>423</b>	<b>448</b>	<b>271</b>	<b>520</b>	<b>8,718</b>

No property and equipment is pledged as collateral as at 31 December 2017 and 2016.

(Thousands of Georgian lari unless otherwise stated)

### 13. Goodwill and other intangible assets

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

	<i>Goodwill</i>	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
<b>Cost</b>				
<b>1 January 2016</b>	13,063	920	1,061	<b>15,044</b>
Additions	–	388	210	<b>598</b>
<b>31 December 2016</b>	<b>13,063</b>	<b>1,308</b>	<b>1,271</b>	<b>15,642</b>
Additions	–	223	49	<b>272</b>
Disposal	–	(5)	–	<b>(5)</b>
<b>31 December 2017</b>	<b>13,063</b>	<b>1,526</b>	<b>1,320</b>	<b>15,909</b>
<b>Accumulated amortization and impairment</b>				
<b>1 January 2016</b>	–	163	633	<b>796</b>
Amortization charge	–	205	169	<b>374</b>
<b>31 December 2016</b>	<b>–</b>	<b>368</b>	<b>802</b>	<b>1,170</b>
Amortization charge	–	250	154	<b>404</b>
<b>31 December 2017</b>	<b>–</b>	<b>618</b>	<b>956</b>	<b>1,574</b>
<b>Net book value</b>				
<b>31 December 2016</b>	<b>13,063</b>	<b>940</b>	<b>469</b>	<b>14,472</b>
<b>31 December 2017</b>	<b>13,063</b>	<b>908</b>	<b>364</b>	<b>14,335</b>

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.

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 pre-tax 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 22.1% (2016: 17.8%). 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 14.6% (2016: 16.3%).

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 2017, 2016.

### 14. 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.

(Thousands of Georgian lari unless otherwise stated)

#### 14. Pension fund assets and liabilities (continued)

As of 31 December pension fund liabilities consisted of:

	<b>2017</b>	<b>2016</b>
Total net contributions to the pension fund	11,703	10,734
Total net income earned on net pension fund contributions	6,833	5,707
<b>Pension fund liabilities</b>	<b>18,536</b>	<b>16,441</b>

The movement of pension fund liabilities during 2017 and 2016 was as follows:

	<b>2017</b>	<b>2016</b>
<b>Pension fund liabilities as of 1 January</b>	<b>16,441</b>	<b>13,706</b>
Total pension fund instalments during the year	3,356	3,085
Administration commission	(40)	(38)
Management commission	(276)	(245)
Investment income commission	(203)	(195)
Membership commission	(6)	(5)
Net income (net of physical persons income tax)	1,651	1,613
Funds withdrawn by Participants	(2,387)	(1,480)
<b>Total accumulated pension fund during the year</b>	<b>2,095</b>	<b>2,735</b>
<b>Pension fund liabilities as of 31 December</b>	<b>18,536</b>	<b>16,441</b>

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

	<b>2017</b>	<b>2016</b>
Bank deposits	15,076	12,504
Cash at bank	1,952	2,202
Available-for-sale financial assets	1,508	1,735
<b>Pension fund assets</b>	<b>18,536</b>	<b>16,441</b>

The Group has contributed GEL 352 as of 31 December 2017 (2016: GEL 282) to its employees' defined contribution pension plan.

#### 15. Allowances for impairment and provisions

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

	<b>Insurance and reinsurance receivables (Note 8)</b>	<b>Loans issued</b>
<b>1 January 2016</b>	<b>5,474</b>	-
Charge	706	182
Write-off	(37)	(182)
Recoveries	-	-
Currency translation difference	1,061	-
<b>31 December 2016</b>	<b>7,204</b>	-
Charge	718	-
Write-off	(3,396)	-
Recoveries	(82)	-
Currency translation difference	(608)	-
<b>31 December 2017</b>	<b>3,836</b>	-

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

*(Thousands of Georgian lari unless otherwise stated)***16. Other assets**

Other assets as of 31 December comprise:

	<u>2017</u>	<u>2016</u>
Advances and prepayments	1,302	764
Assets transferred through subrogation	564	464
Trade receivables	384	478
Receivables from regression	234	327
Inventory	36	199
Prepaid operating taxes	84	81
Other	569	454
<b>Total other assets</b>	<b><u>3,173</u></b>	<b><u>2,767</u></b>

**17. Equity**

As of 31 December 2017 the number of authorized ordinary shares was 2,700,000 (2016: 2,700,000) with a nominal value per share of one Georgian lari. 1,889,155 authorized shares have been issued and fully paid. (2016: 1,889,155).

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 March 2017, shareholder of JSC Insurance Company Aldagi declared 2017 dividends comprising Georgian lari 3.705 per share. Payment of the total GEL 7,000 annual dividends was received by the shareholder on 4 April 2017.

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 annual 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.

**18. Gross technical provisions and ceded share of technical provisions**

Gross technical provisions and ceded share of technical provisions as of 31 December comprise:

	<u>2017</u>	<u>2016</u>
<b>Gross technical provisions</b>		
- Unearned premiums provision	31,921	29,369
- Provisions for claims reported by policyholders	18,047	11,831
- Provisions for claims incurred but not reported (IBNR)	304	342
<b>Total gross technical provisions</b>	<b><u>50,272</u></b>	<b><u>41,542</u></b>
<b>Ceded share of technical provisions</b>		
- Reinsurers' share in unearned premiums provision	(6,731)	(5,673)
- Reinsurers' share in provisions for claims reported by policyholders	(13,940)	(7,488)
- Reinsurers' share in provisions for claims incurred but not reported (IBNR)	-	-
<b>Total ceded share of technical provisions</b>	<b><u>(20,671)</u></b>	<b><u>(13,161)</u></b>
<b>Technical provisions net of reinsurance</b>		
- Unearned premiums provision	25,190	23,696
- Provisions for claims reported by policyholders	4,107	4,343
- Provisions for claims incurred but not reported (IBNR)	304	342
<b>Total technical provisions net of reinsurance</b>	<b><u>29,601</u></b>	<b><u>28,381</u></b>

(Thousands of Georgian lari unless otherwise stated)

**18. Gross technical provisions and ceded share of technical provisions (continued)**

Technical provisions as of 31 December comprise:

	Notes	2017			2016		
		Gross technical provisions	Ceded share of technical provisions	Net	Gross technical provisions	Ceded share of technical provisions	Net
Life insurance contracts	(a)	1,711	(476)	1,235	1,384	(166)	1,218
General insurance contracts	(b)	48,561	(20,195)	28,366	40,158	(12,995)	27,163
<b>Total Gross technical provisions</b>		<b>50,272</b>	<b>(20,671)</b>	<b>29,601</b>	<b>41,542</b>	<b>(13,161)</b>	<b>28,381</b>

(a) The movement during the year in life technical provisions is as follows.

	Notes	2017			2016		
		Gross technical provisions	Ceded share of technical provisions	Net	Gross technical provisions	Ceded share of technical provisions	Net
<b>At 1 January</b>		<b>1,384</b>	<b>(166)</b>	<b>1,218</b>	<b>660</b>	<b>(63)</b>	<b>597</b>
Premiums written during the year	23	9,018	(899)	8,119	7,525	(635)	6,890
Premiums earned during the year		(8,969)	859	(8,110)	(7,503)	623	(6,880)
Claims incurred during the current accident year		3,589	(491)	3,098	3,090	(272)	2,818
Claims paid during the year	24	(3,311)	221	(3,090)	(2,388)	181	(2,207)
<b>At 31 December</b>		<b>1,711</b>	<b>(476)</b>	<b>1,235</b>	<b>1,384</b>	<b>(166)</b>	<b>1,218</b>

(b) General technical provisions may be analysed as follows. Provision for claims settlement expenses is included in the gross technical provisions.

	Notes	2017			2016		
		Gross technical provisions	Ceded share of technical provisions	Net	Gross technical provisions	Ceded share of technical provisions	Net
Provisions for claims reported by policyholders	(1)	16,723	(13,556)	3,167	10,844	(7,373)	3,471
Provisions for claims incurred but not reported (IBNR)		71	–	71	50	–	50
<b>Outstanding claims provision</b>		<b>16,794</b>	<b>(13,556)</b>	<b>3,238</b>	<b>10,894</b>	<b>(7,373)</b>	<b>3,521</b>
Provision for unearned premiums	(2)	31,767	(6,639)	25,128	29,264	(5,622)	23,642
<b>Total general technical provisions</b>		<b>48,561</b>	<b>(20,195)</b>	<b>28,366</b>	<b>40,158</b>	<b>(12,995)</b>	<b>27,163</b>

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

	Notes	2017			2016		
		Gross technical provisions	Ceded share of technical provisions	Net	Gross technical provisions	Ceded share of technical provisions	Net
<b>At 1 January</b>		<b>10,894</b>	<b>(7,373)</b>	<b>3,521</b>	<b>12,377</b>	<b>(7,996)</b>	<b>4,381</b>
Claims incurred during the current accident year		37,951	(15,064)	22,887	23,512	(7,108)	16,404
Claims paid during the year	24	(32,051)	8,881	(23,170)	(24,995)	7,731	(17,264)
<b>At 31 December</b>		<b>16,794</b>	<b>(13,556)</b>	<b>3,238</b>	<b>10,894</b>	<b>(7,373)</b>	<b>3,521</b>

(Thousands of Georgian lari unless otherwise stated)

## 18. Gross technical provisions and ceded share of technical provisions (continued)

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

Notes	2017			2016		
	Gross technical provisions	Ceded share of technical provisions	Net	Gross technical provisions	Ceded share of technical provisions	Net
<b>At 1 January</b>	<b>29,264</b>	<b>(5,622)</b>	<b>23,642</b>	<b>24,927</b>	<b>(5,767)</b>	<b>19,160</b>
Premiums written during the year	79,456	(23,310)	<b>56,146</b>	67,865	(19,871)	<b>47,994</b>
Premiums earned during the year	(76,953)	22,293	<b>(54,660)</b>	(63,528)	20,016	<b>(43,512)</b>
<b>At 31 December</b>	<b>31,767</b>	<b>(6,639)</b>	<b>25,128</b>	<b>29,264</b>	<b>(5,622)</b>	<b>23,642</b>

### Gross technical provisions and ceded share of technical provisions – 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 gross technical provisions.

#### (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, technical provisions and Note 4 – Significant accounting judgements, estimates and assumptions.

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

##### (3) Loss development triangle

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

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

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

(Thousands of Georgian lari unless otherwise stated)

## 18. Gross technical provisions and ceded share of technical provisions (continued)

### Gross technical provisions and ceded share of technical provisions – terms, assumptions and sensitivities (continued)

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

	2010	2011	2012	2013	2014	2015	2016	2017	Total
Accident year	8,771	7,428	16,301	13,058	16,406	31,128	27,926	43,667	-
One year later	8,702	7,653	14,048	12,570	15,817	30,186	27,077	-	-
Two years later	9,421	7,593	14,021	12,011	15,352	29,889	-	-	-
Three years later	9,399	7,556	14,019	12,161	14,986	-	-	-	-
Four years later	9,367	7,476	14,012	11,566	-	-	-	-	-
Five years later	9,544	7,476	14,012	-	-	-	-	-	-
Six years later	9,683	7,482	-	-	-	-	-	-	-
Seven years later	9,653	-	-	-	-	-	-	-	-
<b>Current estimate of cumulative claims incurred</b>	<b>9,653</b>	<b>7,482</b>	<b>14,012</b>	<b>11,566</b>	<b>14,986</b>	<b>29,889</b>	<b>27,077</b>	<b>43,667</b>	<b>158,332</b>
Accident year	(6,665)	(5,700)	(10,733)	(8,867)	(12,268)	(21,926)	(19,254)	(27,753)	-
One year later	(7,559)	(6,904)	(13,013)	(10,520)	(14,185)	(29,662)	(26,674)	-	-
Two years later	(7,887)	(7,441)	(13,937)	(11,463)	(14,467)	(29,766)	-	-	-
Three years later	(7,887)	(7,441)	(14,012)	(11,566)	(14,547)	-	-	-	-
Four years later	(8,220)	(7,441)	(14,012)	(11,566)	-	-	-	-	-
Five years later	(8,222)	(7,441)	(14,012)	-	-	-	-	-	-
Six years later	(8,222)	(7,441)	-	-	-	-	-	-	-
Seven years later	(8,222)	-	-	-	-	-	-	-	-
<b>Cumulative payments to date</b>	<b>(8,222)</b>	<b>(7,441)</b>	<b>(14,012)</b>	<b>(11,566)</b>	<b>(14,547)</b>	<b>(29,766)</b>	<b>(26,674)</b>	<b>(27,753)</b>	<b>(139,981)</b>
<b>Gross outstanding claims provision per the statement of financial position</b>	<b>1,431</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>439</b>	<b>123</b>	<b>403</b>	<b>15,914</b>	<b>18,351</b>
Current estimation of surplus/(deficiency)	(881)	(54)	2,289	1,492	1,420	1,239	849	849	
% of Surplus/(deficiency) of initial gross reserve	-10.05%	-0.73%	14.04%	11.43%	8.66%	3.98%	3.04%	3.04%	

(Thousands of Georgian lari unless otherwise stated)

**18. Gross technical provisions and ceded share of technical provisions (continued)****Gross technical provisions and ceded share of technical provisions – terms, assumptions and sensitivities (continued)**

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

	2010	2011	2012	2013	2014	2015	2016	2017	Total
Accident year	3,937	5,788	12,355	10,337	12,855	21,815	19,601	26,425	-
One year later	3,934	6,088	12,260	10,086	13,274	21,721	19,347	-	-
Two years later	4,506	6,132	12,253	10,190	13,103	21,479	-	-	-
Three years later	4,398	6,090	12,249	10,284	13,148	-	-	-	-
Four years later	4,346	6,090	12,242	10,285	-	-	-	-	-
Five years later	4,346	6,090	12,242	-	-	-	-	-	-
Six years later	4,346	6,096	-	-	-	-	-	-	-
Seven years later	4,346	-	-	-	-	-	-	-	-
<b>Current estimate of cumulative claims incurred:</b>	<b>4,346</b>	<b>6,096</b>	<b>12,242</b>	<b>10,285</b>	<b>13,148</b>	<b>21,479</b>	<b>19,347</b>	<b>26,425</b>	<b>113,367</b>
Accident year	(3,037)	(5,055)	(9,865)	(8,172)	(10,963)	(17,669)	(15,439)	(22,347)	-
One year later	(3,869)	(5,979)	(11,896)	(9,806)	(12,745)	(21,327)	(19,172)	-	-
Two years later	(4,074)	(6,055)	(12,175)	(10,181)	(13,009)	(21,423)	-	-	-
Three years later	(4,013)	(6,055)	(12,242)	(10,284)	(13,088)	-	-	-	-
Four years later	(4,346)	(6,055)	(12,242)	(10,285)	-	-	-	-	-
Five years later	(4,346)	(6,055)	(12,242)	-	-	-	-	-	-
Six years later	(4,346)	(6,055)	-	-	-	-	-	-	-
Seven years later	(4,346)	-	-	-	-	-	-	-	-
<b>Cumulative payments to date:</b>	<b>(4,346)</b>	<b>(6,055)</b>	<b>(12,242)</b>	<b>(10,285)</b>	<b>(13,088)</b>	<b>(21,423)</b>	<b>(19,172)</b>	<b>(22,347)</b>	<b>(108,957)</b>
<b>Net outstanding claims provision per the statement of financial position</b>	<b>-</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>56</b>	<b>175</b>	<b>4,078</b>	<b>4,410</b>
Current estimation of surplus/(deficiency)	(409)	(308)	114	52	(293)	335	254		
% of surplus/(deficiency) of initial net reserve	-10.39%	-5.31%	0.92%	0.51%	-2.28%	1.54%	1.29%		

(Thousands of Georgian lari unless otherwise stated)

## 19. Derivative financial liabilities

On 28 September 2017, the Group entered into foreign exchange contract with JSC Medical Corporation Evex (a related party). Notional amount for the active contract is USD 2 million. Foreign exchange loss on the contract for the year ended 31 December 2017 comprised GEL 130. Contract matures on 28 September 2018.

On 18 May 2016, the Group entered into foreign exchange contract with JSC Bank of Georgia (a related party). Notional amount for the contract was USD 2.5 million. The contract resulted in foreign exchange gain of GEL 710 in 2017 and foreign exchange loss of GEL 1,144 in 2016. Contract matured on 18 May 2017.

In 2016 the Group had 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.

## 20. Other insurance liabilities

Other insurance liabilities as of 31 December include:

	<u>2017</u>	<u>2016</u>
Reinsurance payables	10,141	8,238
Advances received	1,815	1,166
Claims payable	139	193
<b>Other insurance liabilities</b>	<b><u>12,095</u></b>	<b><u>9,597</u></b>

## 21. Other liabilities

Other liabilities as of 31 December comprise:

	<u>2017</u>	<u>2016</u>
Accruals for employee compensation	2,890	2,688
Commission payable	1,839	1,879
Payables from forward contracts	–	1,105
Advances received	165	224
Operating taxes payable	34	126
Trade payables	–	50
Other	224	619
<b>Other liabilities</b>	<b><u>5,152</u></b>	<b><u>6,691</u></b>

## 22. Commitments and contingencies

### Legal

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

### Taxation

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

*(Thousands of Georgian lari unless otherwise stated)***22. Commitments and contingencies (continued)****Financial commitments and contingencies**

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

	<u>2017</u>	<u>2016</u>
Operating lease commitments:		
- Not later than 1 year	740	764
- Later than 1 year but not later than 5 years	615	1,105
<b>Financial commitments and contingencies</b>	<b><u>1,355</u></b>	<b><u>1,869</u></b>

**23. Net insurance revenue**

Net insurance revenue comprises:

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
Premiums written on general insurance contracts	18	79,456	67,865
Premiums written on life insurance contracts	18	9,018	7,525
<b>Total written premiums</b>		<b><u>88,474</u></b>	<b><u>75,390</u></b>
Gross change in life provision		(49)	(22)
Gross change in unearned premium provision		(2,503)	(4,337)
<b>Total gross earned premiums on insurance contracts</b>		<b><u>85,922</u></b>	<b><u>71,031</u></b>
Reinsurers' share of life insurance contracts premium revenue,	18	(899)	(635)
Reinsurers' share of general insurance contracts premium revenue, direct	18	(23,310)	(19,871)
Reinsurers' share of change in life provision		40	12
Reinsurers' share of change in general insurance contracts unearned premium provision		1,017	(146)
<b>Total reinsurers' share of gross earned premiums on insurance contracts</b>		<b><u>(23,152)</u></b>	<b><u>(20,640)</u></b>
<b>Net insurance revenue</b>		<b><u>62,770</u></b>	<b><u>50,391</u></b>

**24. Net insurance claims incurred**

Net insurance claims incurred comprise:

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
General insurance claims paid, direct	18	(32,051)	(24,995)
Life insurance claims paid	18	(3,311)	(2,388)
Gross change in total insurance contract liabilities		(6,178)	781
<b>Gross insurance claims expenses</b>		<b><u>(41,540)</u></b>	<b><u>(26,602)</u></b>
Reinsurers' share of life claims paid	18	221	181
Reinsurers' share of general claims paid	18	8,881	7,731
Reinsurers' share of change in total insurance contract liabilities		6,452	(532)
<b>Reins insurance claims expenses</b>		<b><u>15,554</u></b>	<b><u>7,380</u></b>
Claim settlement expenses		(1,332)	(780)
Income from regress		2,220	1,899
<b>Net insurance claims incurred</b>		<b><u>(25,098)</u></b>	<b><u>(18,103)</u></b>

*(Thousands of Georgian lari unless otherwise stated)***25. Acquisition costs, net of reinsurance**

Acquisition costs, net of reinsurance comprise:

	<u>2017</u>	<u>2016</u>
Acquisition costs	(9,556)	(7,215)
Acquisition costs deferred (Note 10)	1,236	1,475
Amortization of deferred acquisition costs (Note 10)	(993)	(717)
Reinsurance commissions	213	164
<b>Total acquisition costs</b>	<b><u>(9,100)</u></b>	<b><u>(6,293)</u></b>

**26. Investment income**

Investment income from financial instruments comprises:

	<u>2017</u>	<u>2016</u>
Bank deposits	2,566	2,663
Loan issued	9	166
Available-for-sale financial assets	390	317
<b>Investment income</b>	<b><u>2,965</u></b>	<b><u>3,146</u></b>

**27. Salaries and other employee benefits**

Salaries and employee benefits comprise:

	<u>2017</u>	<u>2016</u>
Salaries	(5,215)	(5,244)
Bonuses	(2,801)	(2,837)
Insurance and other benefits	(152)	(135)
Share-based compensation	(533)	(211)
<b>Salaries and other employee benefits</b>	<b><u>(8,701)</u></b>	<b><u>(8,427)</u></b>

**28. General and administrative expenses**

General and administrative expenses comprise:

	<u>2017</u>	<u>2016</u>
Occupancy and rent	(833)	(733)
Marketing and advertising	(566)	(447)
Legal and consultancy	(338)	(278)
Utilities	(260)	(239)
Representative	(176)	(220)
Personnel training	(149)	(143)
Bank fees and commissions	(124)	(103)
Communications	(110)	(90)
Security	(99)	(17)
Operating taxes	(96)	(84)
Charity	(90)	(117)
Office supplies	(82)	(77)
Membership fees	(61)	(60)
Repair and maintenance of property and equipment	(53)	(46)
Fuel	(48)	(59)
Business travel and related	(16)	(88)
Printing	(10)	(25)
Other	(249)	(297)
<b>Total general and administrative expenses</b>	<b><u>(3,360)</u></b>	<b><u>(3,123)</u></b>

(Thousands of Georgian lari unless otherwise stated)

## 29. Net other operating income

Other operating income comprises:

	<u>2017</u>	<u>2016</u>
<b>Other operating income</b>		
Income from hotel services	278	328
Penalty for breach of contract	145	63
Income from sale of fixed assets	40	78
Income from rent of office space	23	33
Net gain from revaluation of investment property	–	348
Income from sale of greencards	–	168
Other	221	86
<b>Total other operating income</b>	<u>707</u>	<u>1,104</u>
Other operating expenses	(68)	(141)
<b>Net other operating expenses</b>	<u>639</u>	<u>963</u>

## 30. Risk management

The activities of the Group are exposed to various risks. Risk management therefore is a critical component of its insurance activities. Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls. Each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The main financial risks inherent to the Company's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates and equity prices. A summary description of the Company's risk management policies in relation to those risks follows.

### Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group from events that hinder the sustainable achievement of the Group's performance objectives, including failing to exploit opportunities. The Group 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.

(Thousands of Georgian lari unless otherwise stated)

### 30. 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.

#### Regulatory requirements

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 share capital of GEL 2,200 for life insurance, GEL 2,000 for non-life insurance and GEL 2,200 for reinsurance, of which 100% should be kept as cash at bank or bank deposits (2016: GEL 2,200 for life insurance, GEL 2,000 for non-life insurance and GEL 2,200 for reinsurance of which 100% should be 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.

In addition to the minimum share capital requirement, starting from 1 January 2017 insurance companies are also required to maintain a solvency ratio, calculated as regulatory capital divided by the required solvency capital, in excess of 50% until 1 July 2017. Solvency ratio should be in excess of 75% starting from 1 July 2017 until 1 January 2018. Starting from 1 January 2018, solvency ratio should be in excess of 100%. The ISSSG defines the types of assets that can be used by an insurer to meet its regulatory capital requirements. Regulatory capital includes total equity less intangible assets and goodwill, deferred acquisition costs, deferred tax assets, unsecured loans issued, assets pledged as collateral on behalf of other parties, cash on hand above GEL100, other assets, 50% of investments in subsidiaries and associates (100% starting from 31 December 2018), 30% of investment property and 10% of available-for-sale financial assets and assets held-to-maturity. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the ISSSG directives.

The required solvency capital is the greater of 18% of premium written up to GEL100 million plus 16% of premiums above GEL100 million; and 26% of claims up to GEL70 million plus 23% of claims above GEL70 million. Premiums for high risk classes of business are increased for the purpose of this calculation and an adjustment is made for reinsurance.

Company complied with ISSSG requirements as at 31 December 2017 and 2016.

#### 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 investment 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:

	<u>2017</u>	<u>2016</u>
Loss ratio	40%	36%
Combined ratio	75%	72%

#### 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.

(Thousands of Georgian lari unless otherwise stated)

### 30. Risk management (continued)

#### Insurance risk (continued)

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 chain ladder 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. Historical claims development is mainly analysed by accident years as well as by significant business lines. Technical provisions on insurance business written significantly depends on fluctuations in currency exchange rates as the insurance values on these contracts are denominated in US dollars.

#### *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 and net technical provisions as at 31 December 2017 on life insurance contracts is GEL 1,711 and GEL 1,235 respectively (2016: GEL 1,384 and GEL 1,218).

#### (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)

### 30. 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 technical provisions by type of contract.

	2017			2016		
	<i>Gross claims liabilities</i>	<i>Reinsurers share of claims liabilities</i>	<i>Net claims liabilities</i>	<i>Gross claims liabilities</i>	<i>Reinsurers share of claims liabilities</i>	<i>Net claims liabilities</i>
Motor	17,944	(1,328)	<b>16,616</b>	15,396	(47)	<b>15,349</b>
Property	22,707	(16,088)	<b>6,619</b>	12,759	(6,172)	<b>6,587</b>
Liability	4,914	(2,365)	<b>2,549</b>	8,398	(6,119)	<b>2,279</b>
Guarantees	2,053	(338)	<b>1,715</b>	2,715	(581)	<b>2,134</b>
Cargo	872	(68)	<b>804</b>	836	(76)	<b>760</b>
Health	71	(8)	<b>63</b>	54	-	<b>54</b>
	<b>48,561</b>	<b>(20,195)</b>	<b>28,366</b>	<b>40,158</b>	<b>(12,995)</b>	<b>27,163</b>

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 ceded share of technical provisions.

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.

(Thousands of Georgian lari unless otherwise stated)

**30. Risk management (continued)****Financial risk (continued)****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 15% of total ceded share of technical provisions at the reporting date (2016: 21%). 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.

*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.

	<i>Notes</i>	<i>Neither past due nor impaired as at 31 December 2017</i>	<i>Past-due but not individually impaired as at 31 December 2017</i>	<i>Total 2017</i>
Bank deposits	6	25,968	–	<b>25,968</b>
Loan Issued		100	–	<b>100</b>
Available-for-sale financial assets	7	4,180	–	<b>4,180</b>
Insurance and reinsurance receivables	8	26,976	1,450	<b>28,426</b>
Ceded share of technical provisions	18	20,671	–	<b>20,671</b>
Pension fund assets	14	18,536	–	<b>18,536</b>
<b>Total</b>		<b>96,431</b>	<b>1,450</b>	<b>97,881</b>

  

	<i>Notes</i>	<i>Neither past due nor impaired as at 31 December 2016</i>	<i>Past-due but not individually impaired as at 31 December 2016</i>	<i>Total 2016</i>
Bank deposits	6	24,928	–	<b>24,928</b>
Available-for-sale financial assets	7	3,389	–	<b>3,389</b>
Insurance and reinsurance receivables	8	21,444	1,564	<b>23,008</b>
Ceded share of technical provisions	18	13,161	–	<b>13,161</b>
Pension fund assets	14	16,441	–	<b>16,441</b>
<b>Total</b>		<b>79,363</b>	<b>1,564</b>	<b>80,927</b>

The Group does not have an internal 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 nor impaired financial assets according to external ratings.

<i>31 December 2017</i>	<i>Notes</i>	<i>BB-</i>	<i>BB</i>	<i>B+</i>	<i>B</i>	<i>Not rated</i>	<i>Total neither past due nor impaired</i>
Bank Deposits	6	2,418	–	–	19,155	4,395	<b>25,968</b>
Available-for-sale financial assets	7	3,830	–	–	200	150	<b>4,180</b>
Pension fund assets	14	1,732	–	–	11,768	5,036	<b>18,536</b>
<b>Total</b>		<b>7,980</b>	<b>–</b>	<b>–</b>	<b>31,123</b>	<b>9,581</b>	<b>48,684</b>

(Thousands of Georgian lari unless otherwise stated)

**30. Risk management (continued)****Financial risk (continued)**

<b>31 December 2016</b>	<b>Notes</b>	<b>BB-</b>	<b>B+</b>	<b>B</b>	<b>Not rated</b>	<b>Total neither past due nor impaired</b>
Bank Deposits	6	15,694	1,589	398	7,247	<b>24,928</b>
Available-for-sale financial assets	7	631	–	–	2,758	<b>3,389</b>
Pension fund assets	14	8,954	1,404	–	6,083	<b>16,441</b>
<b>Total</b>		<b>25,279</b>	<b>2,993</b>	<b>398</b>	<b>16,088</b>	<b>44,758</b>

The Group does not have a credit rating system to evaluate credit quality of Insurance and reinsurance receivables, Ceded share of technical provisions 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.

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.

<b>31 December 2017</b>	<b>Within one year</b>	<b>More than one year</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	4,186	–	<b>4,186</b>
Bank Deposits	25,968	–	<b>25,968</b>
Available-for-sale financial assets	151	4,029	<b>4,180</b>
Insurance and reinsurance receivables	28,426	–	<b>28,426</b>
Loan issued	100	–	<b>100</b>
Ceded share of technical provisions (except reinsurer's share in UPR)	12,509	1,431	<b>13,940</b>
Pension Fund Assets	17,918	618	<b>18,536</b>
Other assets	2,982	191	<b>3,173</b>
<b>Total assets</b>	<b>92,240</b>	<b>6,269</b>	<b>98,509</b>
<b>Liabilities</b>			
Gross technical provisions (except UPR)	16,920	1,431	<b>18,351</b>
Derivative financial liabilities	130	–	<b>130</b>
Other insurance liabilities	11,702	393	<b>12,095</b>
Pension fund liabilities	18,536	–	<b>18,536</b>
Other liabilities	5,152	–	<b>5,152</b>
<b>Total liabilities</b>	<b>52,440</b>	<b>1,824</b>	<b>54,264</b>
<b>Net position</b>	<b>39,800</b>	<b>4,445</b>	<b>44,245</b>
<b>Accumulated gap</b>	<b>39,800</b>	<b>44,245</b>	

(Thousands of Georgian lari unless otherwise stated)

**30. Risk management (continued)****Financial risk (continued)**

<b>31 December 2016</b>	<b>Within one year</b>	<b>More than one year</b>	<b>Total</b>
<b>Assets</b>			
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
Loan issued	–	–	–
Ceded share of technical provisions (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
<b>Total assets</b>	<b>78,922</b>	<b>3,448</b>	<b>82,370</b>
<b>Liabilities</b>			
Gross technical provisions (except UPR)	10,415	1,758	12,173
Derivative financial liabilities	1,144	–	1,144
Other insurance liabilities	9,157	440	9,597
Borrowings	–	–	–
Pension fund liabilities	16,441	–	16,441
Other liabilities	6,691	–	6,691
<b>Total liabilities</b>	<b>43,848</b>	<b>2,198</b>	<b>46,046</b>
<b>Net position</b>	<b>35,074</b>	<b>1,250</b>	<b>36,324</b>
<b>Accumulated gap</b>	<b>35,074</b>	<b>36,324</b>	

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 2017, and 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

<b>As at 31 December 2017</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Derivative financial liability	–	130	–	–	130
Pension fund liabilities	–	18,536	–	–	18,536
<b>Total undiscounted financial liabilities</b>	<b>–</b>	<b>18,666</b>	<b>–</b>	<b>–</b>	<b>18,666</b>
<b>As at 31 December 2016</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Derivative financial liability	–	1,144	–	–	1,144
Pension fund liabilities	–	16,441	–	–	16,441
<b>Total undiscounted financial liabilities</b>	<b>–</b>	<b>17,585</b>	<b>–</b>	<b>–</b>	<b>17,585</b>

**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.

(Thousands of Georgian lari unless otherwise stated)

### 30. Risk management (continued)

#### Market risk (continued)

##### 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 2017 and 2016 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 statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

	<i>As at 31 December 2017</i>			<i>Total</i>
	<i>GEL</i>	<i>USD</i>	<i>EUR</i>	
<b>Assets</b>				
Cash and cash equivalents	3,146	954	86	<b>4,186</b>
Bank deposits	25,431	537	–	<b>25,968</b>
Available-for-sale financial assets	3,378	802	–	<b>4,180</b>
Loans Issued	100	–	–	<b>100</b>
Insurance and reinsurance receivables	7,906	20,145	375	<b>28,426</b>
Ceded share of technical provisions	6,731	13,940	–	<b>20,671</b>
Pension fund assets	17,313	1,143	80	<b>18,536</b>
<b>Total assets</b>	<b>64,005</b>	<b>37,521</b>	<b>541</b>	<b>102,067</b>
<b>Liabilities</b>				
Gross technical provisions	33,579	16,646	47	<b>50,272</b>
Other insurance liabilities	2,285	9,365	445	<b>12,095</b>
Pension fund liabilities	17,856	600	80	<b>18,536</b>
Other liabilities	5,056	96	–	<b>5,152</b>
<b>Total liabilities</b>	<b>58,776</b>	<b>26,707</b>	<b>572</b>	<b>86,055</b>
<b>Net position, before derivatives</b>	<b>5,229</b>	<b>10,814</b>	<b>(31)</b>	<b>16,012</b>
Derivative financial instruments	5,237	(5,367)	–	<b>(130)</b>
<b>Net position including derivatives</b>	<b>10,466</b>	<b>5,447</b>	<b>(31)</b>	<b>15,882</b>
<b>Increase in currency rate in %</b>		<b>8.9%</b>	<b>12.0%</b>	
<b>Effect on profit</b>		<b>485</b>	<b>(4)</b>	
<b>Decrease in currency rate in %</b>		<b>-8.9%</b>	<b>-12.0%</b>	
<b>Effect on profit</b>		<b>(485)</b>	<b>4</b>	

(Thousands of Georgian lari unless otherwise stated)

**30. Risk management (continued)****Market risk (continued)**

	<i>As at 31 December 2016</i>			
	<i>GEL</i>	<i>USD</i>	<i>EUR</i>	<i>Total</i>
<b>Assets</b>				
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
Loans Issued	–	–	–	–
Insurance and reinsurance receivables	4,778	18,015	215	23,008
Ceded share of technical provisions	5,935	7,226	–	13,161
Pension fund assets	15,347	1,064	30	16,441
<b>Total assets</b>	<b>56,079</b>	<b>28,944</b>	<b>253</b>	<b>85,276</b>
<b>Liabilities</b>				
Gross technical provisions	31,798	9,726	18	41,542
Other insurance liabilities	962	8,386	249	9,597
Borrowings	–	–	–	–
Pension fund liabilities	16,404	34	3	16,441
Other liabilities	6,459	232	–	6,691
<b>Total liabilities</b>	<b>55,623</b>	<b>18,378</b>	<b>270</b>	<b>74,271</b>
<b>Net position, before derivatives</b>	<b>456</b>	<b>10,566</b>	<b>(17)</b>	<b>11,005</b>
Derivative financial instruments	5,595	(6,739)	–	(1,144)
<b>Net position including derivatives</b>	<b>6,051</b>	<b>3,827</b>	<b>(17)</b>	<b>9,861</b>
<b>Increase in currency rate in %</b>		<b>14.0%</b>	<b>17.5%</b>	
<b>Effect on profit</b>		<b>536</b>	<b>(3)</b>	
<b>Decrease in currency rate in %</b>		<b>-14.0%</b>	<b>-17.5%</b>	
<b>Effect on profit</b>		<b>(536)</b>	<b>3</b>	

**31. Fair values measurements****Fair value hierarchy**

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total 2017</i>
<b>Assets measured at fair value</b>				
Investment property	–	–	845	845
Available-for-sale financial assets	–	4,180	–	4,180
Pension fund assets				
- Available for sale assets	–	1,508	–	1,508
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	4,186	–	–	4,186
Bank deposits	–	25,968	–	25,968
Loan Issued	–	–	100	100
Pension fund assets				
- Cash and cash equivalents	1,952	–	–	1,952
- Bank deposits	–	15,076	–	15,076
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	–	130	–	130
<b>Liabilities for which fair values are disclosed</b>				
Pension fund liability	–	18,536	–	18,536

(Thousands of Georgian lari unless otherwise stated)

**31. Fair values measurements (continued)****Fair value hierarchy (continued)**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total 2016</b>
<b>Assets measured at fair value</b>				
Investment property	–	–	845	<b>845</b>
Available-for-sale financial assets	–	3,389	–	<b>3,389</b>
Pension fund assets				
- Available for sale assets	–	1,735	–	<b>1,735</b>
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	4,349	–	–	<b>4,349</b>
Bank deposits	–	24,928	–	<b>24,928</b>
Pension fund assets				
- Cash and cash equivalents	2,202	–	–	<b>2,202</b>
- Bank deposits	–	12,504	–	<b>12,504</b>
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities	–	1,144	–	<b>1,144</b>
<b>Liabilities for which fair values are disclosed</b>				
Pension fund liability	–	16,441	–	<b>16,441</b>

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.

*Investment property*

Fair value for investment property is derived by some of the inputs which are not based on observable market data, such as price per square meter.

*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 2017 and 2016 are as shown below:

**Level 3 property at fair value**

	<b>2017 and 2016</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Amount, GEL per sq meter range</b>	<b>Area, sq meters</b>	<b>Sensitivity of the input to fair value</b>
Investment property	845	Market approach	Price per square metre	2,296-2,585	346	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 2017 and 2016, 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.

(Thousands of Georgian lari unless otherwise stated)

**31. Fair values measurements (continued)****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.

**32. Related party transactions**

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

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

	<b>2017</b>		<b>2016</b>	
	<i>Entities under common control*</i>		<i>Entities under common control*</i>	
<b>Assets</b>				
Cash and cash equivalents	2,549		3,030	
Bank deposits	16,095		13,602	
Insurance and reinsurance receivables	3,995		2,939	
Pension fund assets	12,571		8,858	
Ceded share of technical reserves	3,551		78	
Other assets	145		122	
Available-for-sale financial assets	3,829		2,792	
	<b>42,735</b>		<b>31,421</b>	
<b>Liabilities</b>				
Gross technical provisions	4,170		597	
Derivative financial liabilities	130		1,144	
Other liabilities	113		1,291	
	<b>4,413</b>		<b>3,032</b>	
	<b>2017</b>		<b>2016</b>	
	<i>Parent</i>	<i>Entities under common control</i>	<i>Parent</i>	<i>Entities under common control</i>
<b>Income and expenses</b>				
Net insurance revenue	249	10,955	128	7,476
Net insurance claims and claims handling expenses	–	(3,686)	–	(2,027)
Acquisition costs, net of reinsurance	–	(739)	–	(402)
Investment income	–	1,710	120	1,729
Investment income attributable to pension fund participants	–	944	–	741
General and administrative expenses	–	(676)	–	(559)
Salaries and other employee benefits	–	(82)	–	(73)
Net other operating income	–	62	–	75
Foreign exchange gains/(losses)	–	580	–	(1,144)
	<b>249</b>	<b>9,068</b>	<b>248</b>	<b>5,816</b>

\* Entities under common control include BGEO Group plc subsidiaries.

(Thousands of Georgian lari unless otherwise stated)

### 32. Related party transactions (continued)

Compensation of key management personnel (2017: 11 persons; 2016:10 persons) comprised the following:

	<u>2017</u>	<u>2016</u>
Salaries and bonuses	2,820	2,731
Share-based payments compensation	<u>533</u>	<u>211</u>
<b>Total key management compensation</b>	<b><u>3,353</u></b>	<b><u>2,942</u></b>

(Thousands of Georgian lari unless otherwise stated)

**Consolidation schedule for the statement of financial position**

	2017			
	Parent company	Subsidiaries	Intercompany balances and consolidation adjustments	Total
<b>Assets</b>				
Cash and cash equivalents	3,918	268	–	4,186
Bank deposits	20,662	5,306	–	25,968
Available-for-sale financial assets	4,180	–	–	4,180
Insurance and reinsurance receivables	28,644	69	(287)	28,426
Loan issued	–	1,570	(1,470)	100
Ceded share of technical provisions	20,671	–	–	20,671
Deferred income tax assets	652	226	–	878
Deferred acquisition costs	2,916	–	–	2,916
Investment property	845	–	–	845
Property and equipment	5,503	5,124	–	10,627
Goodwill and other intangible assets	14,334	1	–	14,335
Pension fund assets	18,536	–	–	18,536
Other assets	2,274	909	(10)	3,173
Investment in subsidiaries	14,530	–	(14,530)	–
<b>Total assets</b>	<b>137,665</b>	<b>13,473</b>	<b>(16,297)</b>	<b>134,841</b>
<b>Equity</b>				
Share capital	1,889	14,495	(14,495)	1,889
Additional paid-in capital	6,744	–	243	6,987
Other reserves	–	45	(45)	–
Retained earnings	41,475	(1,492)	(233)	39,750
<b>Total equity</b>	<b>50,108</b>	<b>13,048</b>	<b>(14,530)</b>	<b>48,626</b>
<b>Liabilities</b>				
Gross technical provisions	50,146	126	–	50,272
Derivative financial liabilities	130	–	–	130
Other insurance liabilities	12,095	–	–	12,095
Current income tax liabilities	16	14	–	30
Borrowings	1,470	–	(1,470)	–
Pension fund liabilities	18,536	–	–	18,536
Other liabilities	5,164	285	(297)	5,152
<b>Total liabilities</b>	<b>87,557</b>	<b>425</b>	<b>(1,767)</b>	<b>86,215</b>
<b>Total equity and liabilities</b>	<b>137,665</b>	<b>13,473</b>	<b>(16,297)</b>	<b>134,841</b>





(Thousands of Georgian lari unless otherwise stated)

**Consolidation schedule for the statement of cash flows**

	2017			2016			
	Parent company	Subsidiaries	Intercompany transactions	Parent company	Subsidiaries	Intercompany transactions	Total
<b>Cash flows from operating activities</b>							
Insurance premium received	77,177	110	–	65,324	407	–	65,731
Reinsurance premium paid	(15,796)	–	–	(14,346)	–	–	(14,346)
Insurance benefits and claims paid	(32,929)	(16)	(114)	(25,728)	(82)	–	(25,810)
Reinsurance claims received	8,233	–	–	5,999	–	–	5,999
Acquisition costs paid	(9,202)	(3)	–	(5,824)	(8)	–	(5,832)
Salaries and benefits paid	(8,805)	(129)	–	(9,060)	(124)	–	(9,184)
Interest received	1,807	310	(2)	1,243	96	(33)	1,306
Interest paid	–	–	–	–	(40)	40	–
Operating taxes paid	(84)	(65)	–	(237)	(30)	–	(267)
Other operating income received	597	567	(127)	776	601	(116)	1,261
Other operating expenses paid	(4,261)	(688)	241	(2,801)	(164)	115	(2,850)
<b>Net cash flows from operating activities before income tax</b>	<b>16,737</b>	<b>86</b>	<b>(2)</b>	<b>15,346</b>	<b>656</b>	<b>6</b>	<b>16,008</b>
Income tax paid	(3,838)	(46)	–	(2,027)	(102)	–	(2,129)
<b>Net cash flows from operating activities</b>	<b>12,899</b>	<b>40</b>	<b>(2)</b>	<b>13,319</b>	<b>554</b>	<b>6</b>	<b>13,879</b>
<b>Cash flows from (used in) investing activities</b>							
Acquisition of subsidiary, net of cash acquired	(10)	–	10	–	–	–	–
Purchase of premises and equipment	(2,391)	(67)	–	(892)	(149)	1	(1,040)
Proceeds from sale of premises and equipment	37	–	–	–	–	–	–
Purchase of intangible assets	(656)	(20)	–	(455)	–	–	(455)
Loan issued	–	982	(1,082)	(7,170)	(1,891)	2,061	(7,000)
Proceeds from repayment of loan issued	38	–	(38)	1,368	1,927	(1,394)	1,901
Settlement of forward agreements	(1,535)	–	–	–	–	–	–
Net placement of bank deposits	950	(1,161)	–	(4,795)	(366)	–	(5,161)
Purchase of available-for-sale assets	(3,667)	173	–	(381)	(150)	–	(531)
Proceeds from available-for-sale assets	2,586	–	–	–	–	–	–
<b>Net cash flows from (used in) investing activities</b>	<b>(4,648)</b>	<b>(93)</b>	<b>(1,110)</b>	<b>(12,325)</b>	<b>(629)</b>	<b>668</b>	<b>(12,286)</b>
<b>Cash flows from (used in) financing activities</b>							
Proceeds from issuance of ordinary shares	–	10	(10)	–	–	–	–
Dividend paid	(7,000)	–	–	–	–	–	–
Proceeds from borrowings	–	–	–	1,800	261	(2,061)	–
Repayment of borrowings	(1,122)	–	1,122	(910)	(477)	1,387	–
<b>Net cash flows from (used in) financing activities</b>	<b>(8,122)</b>	<b>10</b>	<b>1,112</b>	<b>890</b>	<b>(216)</b>	<b>(674)</b>	<b>–</b>
Effect of exchange rates changes on cash and cash equivalents	(247)	(2)	–	30	(9)	–	21
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(118)</b>	<b>(45)</b>	<b>–</b>	<b>1,914</b>	<b>(300)</b>	<b>–</b>	<b>1,614</b>
Cash and cash equivalents, 1 January	4,036	313	–	2,122	613	–	2,735
<b>Cash and cash equivalents, 31 December</b>	<b>3,918</b>	<b>268</b>	<b>–</b>	<b>4,036</b>	<b>313</b>	<b>–</b>	<b>4,349</b>

(Thousands of Georgian lari unless otherwise stated)

**Cash and cash equivalents**

Cash and cash equivalents as of 31 December comprise:

	2017			
	<i>Parent company</i>	<i>Subsidiaries</i>	<i>Intercompany balances</i>	<i>Total</i>
Cash on hand	56	–	–	56
Current accounts	3,862	268	–	4,130
<b>Total cash and cash equivalents</b>	<b>3,918</b>	<b>268</b>	<b>–</b>	<b>4,186</b>

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

**Bank deposits**

Bank deposits as of 31 December comprise:

	2017			
	<i>Parent company</i>	<i>Subsidiaries</i>	<i>Intercompany balances</i>	<i>Total</i>
- JSC Bank of Georgia	12,879	3,216	–	16,095
- JSC TBC Bank	3,157	1,285	–	4,442
- JSC VTB Bank	2,280	556	–	2,836
- JSC Finca Bank	781	–	–	781
- JSC Tera Bank	778	–	–	778
- JSC Liberty Bank	507	249	–	756
- JSC Halyk Bank	280	–	–	280
<b>Total bank deposits</b>	<b>20,662</b>	<b>5,306</b>	<b>–</b>	<b>25,968</b>

	2016			
	<i>Parent company</i>	<i>Subsidiaries</i>	<i>Intercompany balances</i>	<i>Total</i>
- 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
<b>Total bank deposits</b>	<b>20,986</b>	<b>3,942</b>	<b>–</b>	<b>24,928</b>

(Thousands of Georgian lari unless otherwise stated)

**Property and equipment**

The movements in property and equipment in 2017 were as follows:

<i>Parent Company</i>	<i>Land and Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Total</i>
<b>Cost</b>						
<b>31 December 2016 (restated)</b>	<b>2,247</b>	<b>813</b>	<b>1,149</b>	<b>426</b>	<b>541</b>	<b>5,176</b>
Additions	1,788	83	233	206	71	2,381
Disposals	–	(21)	(69)	(148)	(18)	(256)
<b>31 December 2017</b>	<b>4,035</b>	<b>875</b>	<b>1,313</b>	<b>484</b>	<b>594</b>	<b>7,301</b>
<b>Accumulated depreciation</b>						
<b>31 December 2016 (restated)</b>	<b>202</b>	<b>459</b>	<b>805</b>	<b>155</b>	<b>22</b>	<b>1,643</b>
Depreciation charge	47	67	128	86	2	330
Disposals	–	(15)	(42)	(118)	–	(175)
<b>31 December 2017</b>	<b>249</b>	<b>511</b>	<b>891</b>	<b>123</b>	<b>24</b>	<b>1,798</b>
<b>Net book value</b>						
<b>31 December 2016</b>	<b>2,045</b>	<b>354</b>	<b>344</b>	<b>271</b>	<b>519</b>	<b>3,533</b>
<b>31 December 2017</b>	<b>3,786</b>	<b>364</b>	<b>422</b>	<b>361</b>	<b>570</b>	<b>5,503</b>
<i>Subsidiaries</i>	<i>Land and Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Total</i>
<b>Cost</b>						
<b>31 December 2016 (restated)</b>	<b>5,384</b>	<b>88</b>	<b>133</b>	<b>–</b>	<b>2</b>	<b>5,607</b>
Additions	46	8	9	–	–	63
Disposals	–	(2)	(1)	–	–	(3)
<b>31 December 2017</b>	<b>5,430</b>	<b>94</b>	<b>141</b>	<b>–</b>	<b>2</b>	<b>5,667</b>
<b>Accumulated depreciation</b>						
<b>31 December 2016 (restated)</b>	<b>373</b>	<b>19</b>	<b>29</b>	<b>–</b>	<b>1</b>	<b>422</b>
Depreciation charge	98	9	14	–	–	121
Disposals	–	–	–	–	–	–
<b>31 December 2017</b>	<b>471</b>	<b>28</b>	<b>43</b>	<b>–</b>	<b>1</b>	<b>543</b>
<b>Net book value</b>						
<b>31 December 2016</b>	<b>5,011</b>	<b>69</b>	<b>104</b>	<b>–</b>	<b>1</b>	<b>5,185</b>
<b>31 December 2017</b>	<b>4,959</b>	<b>66</b>	<b>98</b>	<b>–</b>	<b>1</b>	<b>5,124</b>

(Thousands of Georgian lari unless otherwise stated)

**Property and equipment (continued)**

The movements in property and equipment in 2016 were as follows:

<i>Parent company</i>	<i>Land and Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Total</i>
<b>Cost</b>						
1 January 2016 (restated)	2,371	641	997	286	163	4,458
Additions	16	190	217	250	398	1,071
Disposals	(140)	(18)	(65)	(110)	(20)	(353)
<b>31 December 2016</b>	<b>2,247</b>	<b>813</b>	<b>1,149</b>	<b>426</b>	<b>541</b>	<b>5,176</b>
<b>Accumulated depreciation</b>						
1 January 2016 (restated)	216	405	698	142	8	1,469
Depreciation charge	25	59	123	56	14	277
Disposals	(39)	(5)	(16)	(43)	–	(103)
<b>31 December 2016</b>	<b>202</b>	<b>459</b>	<b>805</b>	<b>155</b>	<b>22</b>	<b>1,643</b>
<b>Net book value</b>						
1 January 2016	2,155	236	299	144	155	2,989
<b>31 December 2016</b>	<b>2,045</b>	<b>354</b>	<b>344</b>	<b>271</b>	<b>519</b>	<b>3,533</b>
<i>Subsidiaries</i>	<i>Land and Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvements</i>	<i>Total</i>
<b>Cost</b>						
1 January 2016 (restated)	5,220	86	130	–	2	5,438
Additions	167	2	8	–	–	177
Disposals	(3)	–	(5)	–	–	(8)
<b>31 December 2016</b>	<b>5,384</b>	<b>88</b>	<b>133</b>	<b>–</b>	<b>2</b>	<b>5,607</b>
<b>Accumulated depreciation</b>						
1 January 2016 (restated)	275	10	15	–	–	300
Depreciation charge	98	9	15	–	1	123
Disposals	–	–	(1)	–	–	(1)
<b>31 December 2016</b>	<b>373</b>	<b>19</b>	<b>29</b>	<b>–</b>	<b>1</b>	<b>422</b>
<b>Net book value</b>						
1 January 2016	4,945	76	115	–	2	5,138
<b>31 December 2016</b>	<b>5,011</b>	<b>69</b>	<b>104</b>	<b>–</b>	<b>1</b>	<b>5,185</b>

Giorgi Baratashvili

General Director

Lasha Khakhutaishvili

Financial Director

9 March 2018