JSC Insurance Company Imedi L (204919008)
For 5 months ended 31 December 2014
and
JSC Insurance Company Aldagi (204919008)
For 7 months ended 31 July 2014

Special purpose consolidated financial statements

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Independent auditors' report

To the shareholders and Management Board of JSC Insurance company Imedi L

We have audited the accompanying special purpose consolidated financial statements of JSC Insurance company Imedi L and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position of JSC Insurance company Imedi L (tax identification number 204919008) as at 31 December, 2014 and JSC Insurance company Aldagi (tax identification number 204919008) as at 31 July 2014 and consolidated statement of comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the periods then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of the Group based on requirements of Insurance State Supervision Service of Georgia ("the ISSSG").

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

A member firm of Ernst & Young Global Limited

Opinion

In our opinion, the special purpose consolidated financial statements of JSC Insurance company Imedi L (tax identification number 204919008) for the 5 months ended 31 December, 2014 and JSC Insurance company Aldagi (tax identification number 204919008) for the 7 months ended 31 July, 2014 are prepared, in all material respects, in accordance with the financial reporting provisions of the ISSSG.

Basis of accounting and restriction on use

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

EY Georgia LLC

15 May 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2014

(Thousands of Georgian lari)

	Notes	*31 December 2014*
Assets		
Cash and cash equivalents	13	7,198
Amounts due from credit institutions	14	13,954
Insurance receivables	11,15	18,825
Loans Issued	9	9,054
Current income tax assets		1,272
Deferred income tax assets	8	226
Deferred acquisition costs	12	242
Property and equipment	7	3,786
Investment property		1,138
Prepayments for long-term assets	10	333
Goodwill and other intangible assets	6	3,978
Other assets	10	2,988
Total assets		**62,994**
Equity		
Share capital	16	4,170
Additional paid-in capital	16	10,759
Other reserves		83
Retained earnings		2,754
Total equity		**17,766**
Liabilities		
Insurance contract liabilities	17	20,367
Trade payables		3,727
Claims payable		4,035
Deferred income tax liabilities	8	15
Borrowings	18	16,307
Other liabilities	19	777
Total liabilities		**45,228**
Total equity and liabilities		**62,994**

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

Nino Koguashvili — General Director

Giorgi Mariamidze — Chief Financial Officer

15 May 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

(Thousands of Georgian lari)

	Notes	*Five months ended 31 December 2014*
Gross earned premiums on insurance contracts		21,873
Reinsurers' share of gross earned premiums on insurance contracts		(20)
Net insurance revenue	**21**	**21,853**
Interest Income	22	829
Other operating income		84
Other revenue		**913**
Total revenue		**22,766**
Net insurance benefits and claims paid		21,995
Net change in insurance contracts liabilities		(3,405)
Net insurance claims	23	**18,590**
Acquisition costs	24	1,267
Salaries and other employee benefits	25	1,685
General and administrative expenses	26	1,122
Depreciation and amortization expenses	5, 6	281
Impairment charge	13	629
Interest Expense	22	743
Foreign exchange and translation gain		(185)
Other operating expenses		78
Other expenses		**5,620**
Total claims and expenses		**24,210**
Loss before tax		**(1,444)**
Income tax benefit	7	(141)
Net Loss		**(1,303)**
Other comprehensive income		–
Total Comprehensive income		**(1,303)**

The accompanying notes on pages 5 to 39 are an integral part of these special purpose consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

(Thousands of Georgian lari)

	Share Capital	*Additional paid-in capital*	*Revaluation of property and equipment*	*Retained Earnings*	*Total*
1 August 2014	**3,424**	**7,476**	**83**	**4,057**	**15,040**
Total comprehensive income (loss)	–	–	–	(1,303)	**(1,303)**
Issue of share capital (Note 16)	746	2,986	–	–	**3,732**
Share based transactions	–	297	–	–	**297**
31 December 2014	**4,170**	**10,759**	**83**	**2,754**	**17,766**

The accompanying notes on pages 5 to 39 are an integral part of these special purpose consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Period ended 31 July 2014

(Thousands of Georgian lari)

	Five months ended 31 December 2014
Cash flows from operating activities	
Insurance premium received	22,025
Insurance benefits and claims paid	(15,626)
Acquisition costs paid	(963)
Salaries and benefits paid	(2,543)
Cash paid to other suppliers of goods and services	(1,324)
Interest received	148
Operating taxes paid	(43)
Other operating income received	99
Other operating expenses paid	(9)
Net cash flows from operating activities before income tax	**1,764**
Income tax paid	(913)
Net cash flows from operating activities	**851**
Cash flows used in investing activities	
Purchase of premises and equipment	(233)
Purchase of intangible assets	(1)
Loan Issued	(1,207)
Proceeds from purchase of investments	(881)
Proceeds from sale of premises and equipment	222
Net cash flows from used in investing activities	**(2,100)**
Cash flows from financing activities	
Proceeds from issuance of ordinary shares	3,733
Proceeds from borrowings	2,400
Repayment of borrowings	(1,595)
Interest paid	(419)
Net cash flows from financing activities	**4,119**
Effect of exchange rates changes on cash and cash equivalents	23
Net increase in cash and cash equivalents	**2,893**
Cash and cash equivalents, start of the period	**4,305**
Cash and cash equivalents, end of the period	**7,198**

The accompanying notes on pages 5 to 39 are an integral part of these special purpose consolidated financial statements.

(Thousands of Georgian lari unless otherwise stated)

1. Principal Activities

JSC Insurance Company Aldagi ("Aldagi") was established on 11 August 1998 under the laws of Georgia.

In 2014 Aldagi began a corporate reorganization process in order to separate its health insurance business from property and casualty insurance arm. Reorganization was finalized on 31 July 2014 under the laws of Georgia and resulted in creation of two separate entities: JSC Insurance Company Imedi L ("Imedi L" or "the Group") and JSC Insurance Company Aldagi ("Aldagi"), with Imedi L retaining the old tax identification number of Aldagi – 204919008 and Imedi L is considered to be the legal successor of the old entity.

Imedi L's health insurance business offers a wide range of personal risks insurance products, including critical illness, personal accident and term life insurance products bundled with health insurance and travel insurance policies to corporate and retail clients.

Imedi L possesses two types of insurance licences issued by the Insurance State Supervision Service of Georgia for life and non-life insurance products. The main office of the Company is located in Tbilisi and it has additional service centers in Tbilisi, Batumi, Poti, Kutaisi, Zugdidi, Telavi, Akhaltsikhe, Rustavi, Gori and Ozurgeti. The Company's legal address is 3-5, Kazbegi street, 0179 Tbilisi, Georgia.

As at 31 December 2014 Imedi L has the following shareholders:

Shareholder	***31 December 2014***
JSC Bank of Georgia	88%
JSC BG Capital	12%
Total	**100.00%**

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

Imedi L is the parent of "Biznes Centri Kazbegze, LLC" that was incorporated on 22 June 2010 with 100% ownership.

(Thousands of Georgian lari unless otherwise stated)

2. Basis of Preparation

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

Accordingly, these special purpose consolidated financial statements include consolidated statement of financial position, consolidated statement of comprehensive income statement, consolidated statement of changes in equity, consolidated statement of cash flows as of and for Five month ended 31 December 2014, as well as notes comprising a summary of significant accounting policies and other explanatory information.

According the requirements of ISSSG, the special purpose consolidated financial statements of the Group includes a note that discloses consolidated statement of financial position, consolidated statement of comprehensive income statement, consolidated statement of changes in equity, consolidated statement of cash flows of the Group covering pre-split period as of and for the 7 months ended 31 July 2014. Please refer to Note 5.

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

The difference between Group's accounting policies applied in preparation of these special purpose consolidated financial statements and IFRS is the following:

1) the absence of comparative consolidated income statement, consolidated statement of comprehensive income, consolidated statements of changes in equity and statements of cash flows, as well as respective explanatory notes, and risk management, fair value measurements and related party transactions notes as of and for the 7 months ended 31 July 2014;
2) healthcare segment controlled by the Company as of 31 July 2014 is not consolidated in the special purpose consolidated financial statements of the Company as of and for the period ended 31 July 2014.

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies

Basis of consolidation

The special purpose consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

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 administrative 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)

Basis of consolidation (continued)

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

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

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

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.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premium and the provision for premium deficiency. Business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. The liability is calculated at the reporting date based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the carrying amount of unearned premium is calculated on active policies based on the insurance period and time until the expiry date of each insurance policy. The Group reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims. The differences between the unearned premium reserves, loss provisions and as well as the expected claims are recognised in the consolidated income statement by setting up a provision for premium deficiency.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognized as an expense when incurred.

Cash and cash equivalents

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

Insurance receivables

Insurance receivables are recognized based upon insurance policy terms and measured at cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated income statement.

Financial assets

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

Loans and receivables

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

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

Offsetting

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

Fair value measurement

The Group measures financial instruments, such as available-for-sale securities, derivatives and certain non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 28.

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Property and equipment

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

Office buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

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

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

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

	Years
Office buildings	50
Furniture and fixtures	10
Computers	5
Motor vehicles	5

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

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

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

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Investment properties (continued)

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Retirement and other employee benefit obligations

The state pension system of Georgia requires contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

Borrowings

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Allowances for impairment of financial assets

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

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

Assets carried at amortized cost

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

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognizing of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Taxation

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

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

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

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

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

Intangible assets

Intangible assets include computer software and licenses.

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Intangible assets (continued)

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

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

Provisions and contingent liabilities

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

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

Share-based payment transactions

Senior executives of the Company receive share-based remuneration, whereby employees render services as consideration for the equity instruments of the Company's ultimate parent, BGH. The Company has no liability to settle the awards made by the ultimate parent thus respective share-based remuneration plans are treated as equity settled transactions.

Cash-settled share-based transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed in 'Salaries expenses' over the period until vesting with recognition of a corresponding liability. The liability is re-measured to fair value at each consolidated statement of financial position date up to and including the settlement date, with changes in fair value recognized in the consolidated income statement in 'salaries expenses'.

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.
The cost of equity settled transactions is recognised together with the corresponding increase in additional paid in capital, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employee is fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Premium income

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

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

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

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

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

Provision for unearned premiums

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

Fee and commission income

Insurance contract policyholders are charged for policy administration services, investment management services and for surrenders. The fee is recognized as revenue in the period in which it is received unless these relate to services to be provided in future periods. If the fees are for services to be provided in future periods, these are deferred and recognized in the income statement as the service is provided over the term of the contract. Initiation and other front end fees are also deferred and recognized over the term of the contract.

Benefits and claims

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2014 and 31 July 2014, were 1.8636 and 1.7418 Georgian lari to 1 US dollar, respectively.

Standards and interpretations that are issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's special purpose consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

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

(Thousands of Georgian lari unless otherwise stated)

4. Significant Accounting Judgments, Estimates and Assumptions

Use of estimates, assumptions and judgments

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under 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.

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. General insurance claims provisions are not discounted for the time value of money.

Allowance for impairment of Insurance Receivables

The Group regularly reviews its insurance receivables to assess impairment. The allowance methodology has been consistently applied.

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 recognized when objective evidence of a specific loss event has been observed. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment.

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

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(Thousands of Georgian lari unless otherwise stated)

5. Reorganization date financial statements

Consolidated statement of financial position for the year ended 31 July 2014:

	31 July 2014
Assets	
Cash and cash equivalents	7,056
Amounts due from credit institutions	20,310
Insurance and reinsurance receivables	56,792
Loan Issued	8,571
Reinsurance assets	16,728
Current income tax assets	641
Deferred income tax assets	758
Deferred acquisition costs	1,066
Property and equipment	11,929
Investment property	1,138
Prepayments for long-term assets	625
Investment in Subsidiaries	87,383
Goodwill and other intangible assets	17,820
Pension Fund Assets	10,626
Other assets	5,446
Total assets	**246,889**
Equity	
Share capital	24,659
Additional paid-in capital	78,443
Other reserves	(16,824)
Retained earnings	41,054
Total equity	**127,332**
Liabilities	
Insurance contract liabilities	66,420
Trade payable	3,500
Claims payable	2,686
Reinsurance payables	15,705
Deferred income tax liabilities	28
Borrowings	17,877
Pension Fund Liability	10,626
Other liabilities	2,715
Total liabilities	**119,557**
Total equity and liabilities	**246,889**

(Thousands of Georgian lari unless otherwise stated)

5. Reorganization date financial statements (continued)

Consolidated statement of comprehensive income for the period ended 31 July 2014:

	Seven months ended 31 July 2014
Gross earned premiums on insurance contracts	79,129
Reinsurers' share of gross earned premiums on insurance contracts	(9,904)
Net insurance revenue	**69,225**
Interest Income	1,883
Other operating income	713
Other revenue	**2,596**
Total revenue	**71,821**
Net insurance benefits and claims paid	48,086
Net change in insurance contracts liabilities	1,162
Net insurance claims	**49,248**
Acquisition costs, net of reinsurance	3,915
Salaries and other employee benefits	6,483
General and administrative expenses	2,762
Depreciation and amortization expenses	637
Impairment charge	624
Interest Expense	1,484
Foreign exchange and translation gain	(294)
Other operating expenses	311
Other expenses	**15,922**
Total claims and expenses	**65,170**
Income before tax	**6,651**
Income tax expense	1,102
Net Income	**5,549**
Other comprehensive income	–
Total Comprehensive income	**5,549**

(Thousands of Georgian lari unless otherwise stated)

5. Reorganization date financial statements (continued)

Consolidated Statement of Changes in Equity for the period ended 31 July 2014

	Share Capital	*Additional paid-in capital*	*Other reserves*	*Retained Earnings*	*Total*
1 January 2014	**15,286**	**36,223**	**157**	**35,505**	**87,171**
Total comprehensive income (loss)	–	–	–	5,549	**5,549**
Unrealized gains / (losses) from acquiring share in existing subsidiaries	–	–	(16,981)	–	**(16,981)**
Issue of share capital (Note 16)	9,373	41,311	–	–	**50,684**
Share based transactions	–	909	–	–	**909**
31 July 2014	**24,659**	**78,443**	**(16,824)**	**41,054**	**127,332**

(Thousands of Georgian lari unless otherwise stated)

5. Reorganization date financial statements (continued)

Consolidated statement of cash flows for the period ended 31 July 2014:

	Seven months ended 31 July 2014
Cash flows from operating activities	
Insurance premium received	71,720
Reinsurance premium paid	(5,115)
Insurance benefits and claims paid	(48,646)
Reinsurance claims received	785
Acquisition costs paid	(2,931)
Salaries and benefits paid	(8,668)
Cash paid to other suppliers of goods and services	(3,239)
Interest received	1
Operating taxes paid	(23)
Other operating income received	787
Other operating expenses paid	(979)
Net cash flows from operating activities before income tax	**3,692**
Income tax paid	(1,829)
Net cash flows from operating activities	**1,863**
Cash flows from (used in) investing activities	
Acquisition of subsidiary, net of cash acquired	(50,673)
Purchase of premises and equipment	(815)
Purchase of intangible assets	(72)
Loan Issued	9,099
Proceeds from sale of / (purchase of) investments	(6,320)
Proceeds from sale of premises and equipment	54
Net cash flows from used in investing activities	**(48,727)**
Cash flows from financing activities	
Proceeds from issuance of ordinary shares	50,684
Proceeds from borrowings	2,494
Repayment of borrowings	(5,995)
Interest paid	(1,147)
Net cash flows from financing activities	**46,036**
Effect of exchange rates changes on cash and cash equivalents	(65)
Net increase/(decrease) in cash and cash equivalents	(893)
Cash and cash equivalents, start of the period	**7,949**
Cash and cash equivalents, end of the period	**7,056**

(Thousands of Georgian lari unless otherwise stated)

6. Goodwill and Other Intangible Assets

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

	Goodwill	*Licenses*	*Computer Software*	*Total*
Gross book value				
1-Aug-14	**3,462**	**259**	**877**	**4,598**
Additions	–	7	16	**23**
31-Dec-14	**3,462**	**266**	**893**	**4,621**
Accumulated depreciation				
1-Aug-14	**–**	**100**	**456**	**556**
Depreciation charge	–	21	66	**87**
31-Dec-14	**–**	**121**	**522**	**643**
Net book value				
1-Aug-14	**3,462**	**159**	**421**	**4,042**
31-Dec-14	**3,462**	**145**	**371**	**3,978**

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 of 2015 approved by senior management.

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

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

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will steadily grow and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.
The carrying amount of goodwill allocated to each of the cash-generating units follows:

	Effective annual growth rate in three-year financial budgets	*WACC applied for impairment*	*Carrying amount of goodwill 31 December 2014*
JSC Insurance Company Aldagi*	*33.46%*	*11.30%*	3,260
JSC Insurance Company Imedi L International	*33.46%*	*11.30%*	99
JSC Insurance Company Partner	*33.46%*	*11.30%*	103
Total :			**3,462**

* Part of goodwill that was recognised on the acquisition of JSC Insurance Company Aldagi by JSC BCI in 2006 related to health insurance segment.

(Thousands of Georgian lari unless otherwise stated)

7. Property and Equipment

The movements in property and equipment were as follows:

	Land and buildings	*Furniture and fixtures*	*Computers*	*Motor Vehicles*	*Leasehold improvements*	*Total*
Gross book value						
1-Aug-14	**2,006**	**972**	**1,512**	**220**	**702**	**5,412**
Additions	–	77	67	31	72	**247**
Disposals	–	(8)	(80)	(1)	–	**(89)**
31-Dec-14	**2,006**	**1,041**	**1,499**	**250**	**774**	**5,570**
Accumulated depreciation						
1-Aug-14	**99**	**422**	**978**	**136**	**42**	**1,677**
Depreciation charge	35	46	89	18	6	**194**
Disposals	–	(6)	(80)	–	–	**(86)**
31-Dec-14	**134**	**462**	**986**	**154**	**48**	**1,784**
Net book value						
1-Aug-14	**1,907**	**550**	**534**	**84**	**660**	**3,735**
31-Dec-14	**1,872**	**579**	**513**	**96**	**726**	**3,786**

(Thousands of Georgian lari unless otherwise stated)

8. Taxation

The corporate income tax expenses comprise:

	31 December 2014
Current tax charge	(115)
Deferred tax charge – origination and reversal of temporary differences	(26)
Income tax expense	**(141)**

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

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

	31 December 2014
IFRS income before tax	(1,444)
Statutory tax rate	15%
Theoretical income tax expense at the statutory rate	**(217)**
Non-taxable income	–
Non-deductible expenses	76
Income tax expense	**(141)**

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

	1 August 14	*In the income statement*	*31 December 2014*
Tax effect of deductible temporary differences:			
Insurance receivables	611	94	705
Tax loss carried forward	39	–	39
Insurance contracts liabilities	–	6	6
Borrowings	66	12	78
Loans Issued	133	(74)	59
Deferred tax assets	**849**	**38**	**887**
Tax effect of taxable temporary differences:			
Property and equipment	131	173	304
Insurance contracts liabilities	276	(276)	–
Intangible assets	257	8	265
Other assets and liabilities	–	107	107
Deferred tax liabilities	**664**	**12**	**676**
Net deferred tax assets/(liabilities)	**185**	**26**	**211**

(Thousands of Georgian lari unless otherwise stated)

8. 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), and a turnover based tax, together with others. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies. Therefore, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

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

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

9. Loans Issued

	31 December 2014
Loans Issued in GEL	1,479
Loans Issued in USD	7,575
Loans Issued	**9,054**

Loans Issued earn an annual interest of 14.0% to 16.0% and have remaining maturity range of 1 to 5 years.

10. Other Assets

Other assets as of the end of the period comprise:

	31 December 2014
Advances and prepayments	1,604
Trade Receivables	799
Prepaid operating taxes	204
Inventory	75
Other	306
Other assets	**2,988**

As of 31 December 2014, prepayments for long-term assets of the Group include GEL 333 thousand of advances paid for insurance software development project.

11. Insurance Receivables

Insurance receivables as of the end of the period comprise:

Insurance Receivables	*31 December 2014*
Due from policyholders	21,080
Less – allowance for impairment (Note 15)	(2,255)
Total insurance receivables	**18,825**

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

Allowance for impairment comprises of GEL 2,255 for amounts due from policyholders.

(Thousands of Georgian lari unless otherwise stated)

12. Deferred Acquisition Costs

Deferred acquisition costs ("DAC") are as follows:

At 01 August 2014	**360**
Expenses deferred (note 24)	52
Amortization (note 24)	(170)
At 31 December 2014	**242**

13. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December comprise:

	31 December 2014
Cash on hand	116
Current accounts	7,082
Total cash and cash equivalents	**7,198**

Cash and Cash Equivalents of JSC Insurance Company Imedi L on stand-alone basis comprise GEL 7,183. Insurance State Supervision Service of Georgia is to maintain minimum level of cash and cash equivalents at 10% of the insurance contract liabilities subject to reservation as defined by Insurance State Supervision Service of Georgia regulatory reserve requirement resolution, which as of the reporting date amounts to GEL 571.

14. Amounts due from credit institutions

	31 December 2014
Bank deposits in GEL	5,528
Bank deposits in USD	8,426
Total amounts due from credit institutions	**13,954**

Amounts due from credit institutions are represented by short (for 3 to 12 months) and medium-term placements with Georgian banks and earn annual interest of 0.5% to 12.0% Amounts due from credit institutions include GEL 1,684 of restricted cash in accordance with the export facility agreement with ING Bank N.V and 6,178 GEL of restricted cash in accordance with facility agreement with JSC Bank of Georgia

15. Allowances for Impairment and Provisions

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

	Insurance receivables
1 August 2014	**1,923**
Charge	629
Write-off	(297)
31 December 2014	**2,255**

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

(Thousands of Georgian lari unless otherwise stated)

16. Equity

As of 31 December 2014 the number of authorized ordinary shares was 4,169,854 with a nominal value per share of one Georgian lari. Authorized shares amount to 4,169,854 at par value of one Georgian lari. All authorized shares have been issued and fully paid.

Authorised shares	***31 December 2014*** ***Thousands***
Ordinary shares of 1GEL each	4,170

	Number of Shares (thousand shares)	***Nominal Amount***
Ordinary shares issued and fully paid		
At 1 August 2014	**3,424**	**3,424**
Increase in share capital	**746**	746
At 31 December 2014	**4,170**	**4,170**

The share capital of the Group was contributed by the shareholders in Georgian lari and they are entitled to dividends and any capital distribution in Georgian lari. No dividends were declared or paid during 2014.

	GEL '000
Share premium	
At 1 August 2014	**7,476**
Increase in Share premium	2,986
Increase in share premium to fund salaries and compensation expenses	297
At 31 December 2014	**10,759**

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Regulatory capital requirements in Georgia are set by the Insurance State Supervision Service of Georgia and are applied to JSC Insurance Company Imedi L solely on a stand-alone basis. Insurance State Supervision Service of Georgia requirement is to maintain a minimum Capital of GEL 1,500, of which 80% should be kept as amounts due from credit institutions. Bank confirmation letter is submitted to Insurance State Supervision Service of Georgia on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. JSC Insurance Company Imedi L regularly and consistently complies with the Insurance State Supervision Service of Georgia regulatory capital requirement.

17. Insurance Contract Liabilities

Insurance contract liabilities as of end of the period comprise:

	31 December 2014
Insurance contracts liabilities	
- Unearned premiums provision	14,754
- Provisions for claims reported by policyholders	3,595
- Provisions for claims incurred but not reported (IBNR)	2,018
Total insurance contracts liabilities	**20,367**

(Thousands of Georgian lari unless otherwise stated)

17. Insurance Contract Liabilities (continued)

The movement during the year in insurance contract liabilities is as follows.

	Five months ended 31 December 2014
At the start of the period	**36,898**
Premiums written during the year	8,745
Premiums earned during the year	(21,873)
Claims incurred during the current accident year	18,590
Claims paid during the year	(21,993)
At the end of the period	**20,367**

Insurance contract liabilities - terms, assumptions and sensitivities

Risks under policies usually cover twelve month duration.
For insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.
The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test we refer to note 3 – Summary of accounting policies, Insurance Contract Liabilities.
Insurance contract liabilities on insurance business written in Georgia significantly depend on fluctuations in currency exchange rates as the insured values on these contracts are denominated in US dollars (see analysis of currency risk in the Note 27).

(3) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time.
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.

Accident year	***2011***	***2012***	***2013***	***2014***	***Total***
At the end of accident year	27,559	58,096	87,734	60,827	
One year later	27,984	58,035	87,841		
Two years later	27,915	58,231			
Three years later	27,916				
Current Estimation of Cumulative Claims incurred	27,916	58,231	87,841	60,827	**234,815**
At the end of accident year	(24,506)	(47,092)	(79,100)	(55,225)	
One year later	(27,818)	(58,013)	(87,835)		
Two years later	(27,915)	(58,226)			
Three years later	(27,916)				
Cumulative Payments to date	**(27,916)**	**(58,226)**	**(87,835)**	**(55,225)**	**(229,202)**
Outstanding Claims provision per the statement of financial position	**–**	**5**	**6**	**5,602**	**5,613**
Current Estimation of Surplus/(Deficiency)	(357)	(135)	(107)		
% of Surplus/ (deficiency) of initial gross reserve	-1.3%	-0.2%	-0.1%		

(Thousands of Georgian lari unless otherwise stated)

18. Borrowings

Borrowings as of end of the period comprise:

	31 December 2014
Borrowings from local lenders	2,418
Borrowings from international credit institutions	13,889
Total Borrowings	**16,307**

Borrowings from local lenders have interest rate range from 11% to 14% with maturities from 12 months to 15 months. Borrowings from international credit institutions have interest rate of 6 month Libor plus 1.9% with remaining maturity of 5 years.

19. Other Liabilities

Other liabilities as of the end of the period comprise:

	31 December 2014
Creditors	475
Accruals for employee compensation	235
Operating taxes payable	26
Other	41
Other liabilities	**777**

20. 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 three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Financial commitments and contingencies

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

	31 December 2014
Operating lease commitments:	
-Not later than 1 year	990
-Later than 1 year but not later than 5 years	1,127
Financial contingencies	**2,117**

(Thousands of Georgian lari unless otherwise stated)

21. Net Insurance Revenue

Net insurance revenue comprises:

	Five months ended 31 December 2014
Premiums written on general insurance contracts	8,527
Premiums written on life insurance contracts	218
Total written premiums	**8,745**
Gross change in life provision	646
Gross change in unearned premium provision	12,482
Total gross earned premiums on insurance contracts	**21,873**
Reinsurers' share of change in general insurance contracts unearned premium provision	(20)
Total reinsurers' share of gross earned premiums on insurance contracts	**(20)**
Net insurance revenue	**21,853**

22. Interest Income and Interest Expense

Interest income and interest expense from financial instruments comprises:

	Five months ended 31 December 2014
Interest Income	
Amounts Due from credit institutions	429
Loan issued	399
Cash and cash equivalents	1
Interest Income	**829**
Interest expense	
Borrowings from local lenders	14
Borrowings from international credit institutions	729
	743

23. Net Insurance Claims Incurred

Net insurance claims incurred comprise:

	Five months ended 31 December 2014
General insurance claims paid, direct	21,807
Life insurance claims paid	186
Total insurance claims paid	**21,993**
Gross change in total insurance contract liabilities	(3,403)
Net insurance claims incurred	**18,590**

24. Acquisition Costs

Acquisition costs comprise:

	Five months ended 31 December 2014
Acquisition costs,	1,385
Acquisition costs deferred (note 12)	52
Amortization of deferred acquisition costs (note 12)	(170)
Acquisition costs	**1,267**

(Thousands of Georgian lari unless otherwise stated)

25. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	Five months ended 31 December 2014
Salaries	1,252
Insurance and other benefits	72
Share-based compensation	361
Salaries and other employee benefits	**1,685**

26. General and Administrative Expenses

General and administrative expenses comprise:

	Five months ended 31 December 2014
Occupancy and rent	396
Communications	135
Marketing and advertising	113
Office supplies	96
Utilities	81
Legal and consultancy	69
Printing	63
Representative	62
Business travel and related	32
Operating taxes	18
Bank fees and commissions	15
Personnel training	13
Repair and maintenance of property and equipment	5
Charity	5
Security	4
Other	15
Total general and administrative expenses	**1,122**

(Thousands of Georgian lari unless otherwise stated)

27. 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 recognize the critical importance of having efficient and effective risk management systems in place.

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

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

Capital management objectives, policies and approach

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

The capital management objectives are:

- To maintain the required level of stability of the Group thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.

The operations of the Group are also subject to local regulatory requirements within the jurisdiction where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions e.g. Capital adequacy to minimize the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

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

Approach to capital management

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

The Group's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated manner, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group.

(Thousands of Georgian lari unless otherwise stated)

27. Risk Management (continued)

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. 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 interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios calculated on a net basis were as follows:

	31 December 2014
Loss ratio	85%
Combined ratio	107%

The Group principally issues health package insurance contracts, which include bundled travel, personal accident and life coverage. For these contracts the most significant risks arise from lifestyle changes, epidemic and increases in prices of medical services.

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and on-going 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 all contracts.

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

	31 December 2014
	Claims liabilities
Healthcare	5,118
Life	348
Travel	146
Personal accident	1
	5,613

(Thousands of Georgian lari unless otherwise stated)

27. Risk Management (continued)

Financial risk

(1) Credit risk

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

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

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

Loans and receivables

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

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

Credit quality per class of financial assets

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

	Notes	*Neither past due nor impaired 31 December 2014*	*Past-due but not impaired 31 December 2014*	*Total 31 December 2014*
Amounts due from credit institutions	14	13,954	–	13,954
Loan issued	9	–	9,054	9,054
Total		**13,954**	**9,054**	**23,008**

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

(Thousands of Georgian lari unless otherwise stated)

27. Risk Management (continued)

Financial risk (continued)

(2) Liquidity risk

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

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

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

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

31 December 2014	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	7,198	–	**7,198**
Amounts Due from Credit Institutions	13,954	–	**13,954**
Insurance Receivables	18,825	–	**18,825**
Loans Issued	9,054	–	**9,054**
Current Income tax assets	1,272	–	**1,272**
Deferred income tax asset	–	226	**226**
Investment property	–	1,138	**1,138**
Property and Equipment	353	3,433	**3,786**
Prepayments for long-term assets	–	333	**333**
Goodwill and Intangible assets	207	3,771	**3,978**
Other Assets	2,988	–	**2,988**
Total assets	**53,851**	**8,901**	**62,752**
Liabilities:			
Insurance Contract Liabilities	20,367	–	**20,367**
Claims payable	4,035	–	**4,035**
Trade payable	3,727	–	**3,727**
Borrowings	5,032	11,275	**16,307**
Other Liabilities	777	–	**777**
Total liabilities	**33,938**	**11,275**	**45,213**
Net position	**19,913**	**(2,374)**	**17,539**
Accumulated gap	**19,913**	**17,539**	

The amounts and maturities in respect of insurance liabilities are based on management's best estimate based on statistical techniques and past experience. In management's opinion, liquidity is sufficient to meet the Group's present requirements.

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

(Thousands of Georgian lari unless otherwise stated)

27. Risk Management (continued)

Financial risk (continued)

(2) Liquidity risk (continued)

As at 31 December 2014	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	3,682	1,666	13,118	**18,466**
Total undiscounted borrowings	**3,682**	**1,666**	**13,118**	**18,466**

Market Risk

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

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

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments.
The Company does not have floating interest rate instruments thus is not exposed to cash flow interest risk, interest rate fluctuations also does not affect the Company's equity.
As at 31 December, the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2014	
	GEL	**USD**
Amounts due from credit institutions	9.9%	7.2%
Borrowings	11.1%	14.7%

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the interest expense for the year, based on the floating rate non-trading financial liabilities held at 31 December 2014. During the year ended 31 December 2014 and year ended 31 December 2014 sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement:

Currency	*Increase in basis points 2014*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2014*
USD	0.01%	1	–

Currency	*Decrease in basis points 2014*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2014*
USD	0.01%	(1)	–

(Thousands of Georgian lari unless otherwise stated)

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

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	31 December 2014			
	GEL	***USD***	***EUR***	***Total***
Assets:				
Cash and cash equivalents	3,045	4,112	41	**7,198**
Amounts due from credit institutions	5,528	8,426	–	**13,954**
Loans Issued	1,479	7,575	–	**9,054**
Insurance receivables	18,766	59	–	**18,825**
Total assets	**28,818**	**20,172**	**41**	**49,031**
Liabilities:				
Insurance contract liabilities	19,866	190	311	**20,367**
Borrowings	2,418	13,889	–	**16,307**
Trade payables	–	3,727	–	**3,727**
Other liabilities	636	141	–	**777**
Total liabilities	**22,920**	**17,947**	**311**	**41,178**
Net position	**5,898**	**2,225**	**(270)**	**7,853**
Increase in currency rate in %		**23.4%**	**23.4%**	
Effect on profit		**521.0**	**(63.2)**	
Decrease in currency rate in %		**-23.4%**	**-23.4%**	
Effect on profit		**(521.0)**	**63.2**	

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

Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit linked business. The Group did not have such financial assets or liabilities as of 31 December 2014.

(Thousands of Georgian lari unless otherwise stated)

28. Fair Values Measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Group uses the following hierarchy for determining and disclosing the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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:

Assets measured at fair value	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment property	–	–	1,138	1,138
Assets for which fair values are disclosed				
Cash and cash equivalents	7,198	–	–	7,198
Amounts due from credit institutions	–	–	13,954	13,954
Loan Issued	–	–	9,054	9,054
Insurance receivables	–	–	18,825	18,825
Liabilities for which fair values are disclosed				
Borrowings	–	–	16,307	16,307
Unearned premiums provision	–	–	14,754	14,754

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.

Investment Property

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

	2014	***Valuation technique***	***Significant unobservable inputs***	***Amount***	***Other key information***	***Area***	***Sensitivity of the input to fair value***
Investment property	**1,138**						
	1,138	Market approach	Price per square metre	3,473	Square metres, building	584	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 114

(Thousands of Georgian lari unless otherwise stated)

28. Fair Values Measurements (continued)

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

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

	Carrying value 31 December 2014	*Fair value 31 December 2014*	*Unrecognised gain (loss) 31 December 2014*
Financial assets			
Cash and cash equivalents	7,198	7,198	–
Amounts due from credit institutions	13,954	13,954	–
Loan Issued	9,054	9,054	–
Financial liabilities			
Borrowings	16,307	16,307	–
Total unrecognised change in unrealised fair value			–

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

Assets for which fair value approximates carrying value

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

(Thousands of Georgian lari unless otherwise stated)

29. 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.

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

	31 December 2014	
	Parent	***Entities under common control***
Cash and cash equivalents	6,638	7
Amounts due from credit institutions	6,740	–
Loans issued	–	4,460
Insurance receivables	747	1,361
Other assets	162	744
	14,287	**6,572**
Borrowings	–	2,418
Insurance contract liabilities	–	2,784
Claims payable	–	1,290
Trade Payables	53	257
	53	**6,749**
Income and expenses		
Insurance premium	1,706	620
Insurance claims	–	(6,970)
General and administrative expenses	(253)	(20)
Interest income	251	226
Translation gain/(loss)	–	263
Other operating expenses	–	(17)
Interest expense	(1,021)	(18)
	683	**(5,916)**

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