JSC Insurance Company Imedi L

Consolidated financial statements

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

Contents

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EY Georgia LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს ერნსთ ენდ იანგი საქართველო
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the Shareholders and Supervisory Board of JSC Insurance company Imedi L

Report on the Financial Statements

Opinion

We have audited the consolidated financial statements of JSC Insurance company Imedi L and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibilities of Management Board and Supervisory Board for the financial statements

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

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

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

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

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

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

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

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

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Report on Supplementary Financial Information

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

Ruslan Khoroshvili

On behalf of EY Georgia LLC

Tbilisi, Georgia

3 April 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
(Thousands of Georgian Lari)

	Notes	*31 December 2016*	*31 December 2015*	*1 January 2015*
Assets				
Cash and cash equivalents	4	4,362	6,069	7,198
Amounts due from credit institutions	5	10,013	12,245	13,954
Insurance receivables	6	24,987	20,959	18,825
Loans issued	7	–	10,501	9,054
Current income tax assets		757	359	1,272
Deferred income tax assets	8	310	796	226
Deferred acquisition costs	9	1,341	1,050	242
Property and equipment	10	5,562	5,587	3,786
Investment property		–	–	1,138
Goodwill and other intangible assets	11	5,902	6,142	3,978
Other assets	12	8,035	2,975	2,321
Total assets		**61,269**	**66,683**	**61,994**
Equity				
Share capital		4,170	4,170	4,170
Additional paid-in capital		9,759	9,759	9,759
Reserve for revaluation of property and equipment		83	83	83
Retained earnings / (accumulated deficit)		(791)	4,348	2,754
Total equity	13	**13,221**	**18,360**	**16,766**
Liabilities				
Insurance contract liabilities	14	30,564	22,348	20,367
Claims payable		2,744	6,514	4,035
Deferred income tax liabilities	8	–	28	15
Borrowings	15	11,823	16,497	16,307
Other liabilities	16	2,917	2,936	4,504
Total liabilities		**48,048**	**48,323**	**45,228**
Total equity and liabilities		**61,269**	**66,683**	**61,994**

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

Givi Giorgadze — General Director

Ekaterine Kakulia — Director of finance department

3 April 2017

The accompanying notes on pages 5 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016
(Thousands of Georgian Lari)

	Notes	*31 December 2016*	*31 December 2015*
Gross earned premiums on insurance contracts	18	61,440	58,573
Interest income	19	1,114	2,248
Other operating income		87	119
Total revenue		**62,641**	**60,940**
Net insurance benefits and claims paid		(48,787)	(47,772)
Net change in insurance contracts liabilities		(4,002)	1,286
Claim settlement expenses		(528)	(680)
Net insurance claims		**(53,317)**	**(47,166)**
Acquisition costs	20	(4,385)	(3,253)
Salaries and other employee benefits	21	(4,459)	(3,114)
General and administrative expenses	22	(2,620)	(2,710)
Depreciation and amortization expenses	10, 11	(843)	(711)
Impairment of insurance receivables	6	(451)	(444)
Interest expense	19	(882)	(2,177)
Foreign exchange and translation (loss)/gain		(110)	785
Other operating expenses		(255)	(246)
Other expenses		**(14,005)**	**(11,870)**
Total claims and expenses		**(67,322)**	**(59,036)**
Loss before tax		**(4,681)**	**1,904**
Income tax charge		(458)	(310)
Net (loss)/profit and total comprehensive (loss)/income for the period		**(5,139)**	**1,594**

The accompanying notes on pages 5 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016
(Thousands of Georgian Lari)

	Share capital	*Additional paid-in capital*	*Reserve for revaluation of property and equipment*	*Retained earnings / (accumulate deficit)*	*Total*
1 January 2015	**4,170**	**9,759**	**83**	**2,754**	**16,766**
Profit and total comprehensive income for the period	–	–	–	1,594	**1,594**
31 December 2015	**4,170**	**9,759**	**83**	**4,348**	**18,360**
Loss and total comprehensive loss for the period	–	–	–	(5,139)	**(5,139)**
31 December 2016	**4,170**	**9,759**	**83**	**(791)**	**13,221**

The accompanying notes on pages 5 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016
(Thousands of Georgian Lari)

	31 December 2016	*31 December 2015*
Cash flows from operating activities		
Insurance premium received	59,964	56,828
Insurance benefits and claims paid	(42,834)	(39,950)
Acquisition costs paid	(3,723)	(2,300)
Salaries and benefits paid	(7,782)	(6,144)
Cash paid to other suppliers of goods and services	(2,724)	(3,071)
Interest received	738	1,954
Other operating (expenses paid) / income received	22	25
Net cash flows from operating activities before income tax	**3,661**	**7,342**
Income tax paid	(398)	(646)
Net cash flows from operating activities	**3,263**	**6,696**
Cash flows from / (used in) investing activities		
Acquisition of additional interest in existing subsidiaries (Note 16)	–	(4,373)
Purchase of premises and equipment	(751)	(1,136)
Purchase of intangible assets	(598)	(855)
Loan issued	–	(14)
Placement of amounts due from credit institutions	(9,136)	(12,146)
Withdrawal of amounts due from credit institutions	12,154	15,539
Proceeds from sale of premises and equipment	20	50
Net cash flows from / (used in) investing activities	**1,689**	**(2,935)**
Cash flows used in financing activities		
Proceeds from borrowings	2,165	6,733
Repayment of borrowings	(7,822)	(10,997)
Proceeds from derivative financial instruments	–	245
Interest paid	(971)	(1,578)
Net cash flows used in financing activities	**(6,628)**	**(5,597)**
Effect of exchange rates changes on cash and cash equivalents	(31)	707
Net decrease in cash and cash equivalents	**(1,707)**	**(1,129)**
Cash and cash equivalents, 1 January (Note 4)	6,069	7,198
Cash and cash equivalents, 31 December (Note 4)	**4,362**	**6,069**

The accompanying notes on pages 5 to 43 are an integral part of these 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 reorganisation process in order to separate its health insurance business from property and casualty insurance business. 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 Company") and JSC Insurance Company Aldagi, with Imedi L retaining the old tax identification number of previously existed 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 and Gori. The Company's legal address is 9, Ana Politkovskaia street, 0154 Tbilisi, Georgia.

As at 31 December 2016, 2015 and 1 January 2015 the Company has the following shareholders:

Shareholder	*31 December 2016*	*31 December 2015*	*1 January 2015*
JSC Bank of Georgia	–	–	88%
JSC BG Capital	–	–	12%
JSC Georgia Healthcare Group	100%	100%	–
Total	**100%**	**100%**	**100%**

As at 31 December 2016, 31 December 2015 and 1 January 2015 the Company's ultimate parent is BGEO Group plc ("BGEO"), previously known as the Bank of Georgia Holdings PLC. BGEO is incorporated in the United Kingdom and listed on the London Stock Exchange.

As at 31 December 2015 and 1 January 2015 Imedi L was 100% parent of Biznes Centri Kazbegze LLC that was incorporated on 22 June 2010 in Georgia. On 16 November 2016 the subsidiary was merged with the Company.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared under the historical cost convention (except for office buildings and investment property that has been measured at fair value) as disclosed in Note 3.

These consolidated financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated. The Company presents its consolidated statement of financial position broadly in order of liquidity.

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of preparation (continued)

Going concern

The Company incurred a net loss for the year ended 31 December 2016 of GEL 5,139 (2015: net profit of GEL 1,594). Notwithstanding these facts management assesses that the Company has the ability to meet all of its liabilities as they become due for the following reasons:

- Net loss incurred by the Company in 2016 is mainly caused by a single loss-making contract which is terminated without prolongation in January 2017 and overall increase in loss ratio. The Company increased the prices for insurance policies in order to cover the increased claims.
- The Company has positive cash flow from operating activities for the year ended 31 December 2016.
- The management have negotiated with the parent to provide adequate funds to the Company to enable it to continue normal operations on ongoing basis for the foreseeable future, if necessary. The parent has both the ability and intention to implement the financial support to the Company in terms of necessity.

As of now, all the operations are based on the assumption that the business will be continued; there is no material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements are prepared on the basis that the Company will continue to be a going concern and will realize its assets and discharge its liabilities in the ordinary course of business.

First time adoption of IFRS

The Company was IFRS preparer for the periods until and including 31 December 2013. For periods up to and including the year ended 31 December 2015, the Company stopped applying IFRS and prepared special purpose consolidated financial statements for the sole use of and in accordance with the requirements of the regulator – Insurance State Supervision Service of Georgia ("ISSSG"). The Company resumed applying IFRS in these consolidated financial statements prepared for the year ended 31 December 2016 as respective ISSSG's requirements ceased. Accordingly, the Company has prepared consolidated financial statements that comply with IFRS applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015, as if it had never stopped applying IFRS. In preparing the consolidated financial statements, the Company's consolidated opening statement of financial position was prepared as at 1 January 2015, the Company's date of transition to IFRS.

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016, 31 December 2015 and 1 January 2015. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Control is achieved when the Company 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 Company controls an investee if and only if the Company 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

When the Company has less than a majority of the voting or similar rights of an investee, the Company 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 Company's voting rights and potential voting rights.

The Company 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. 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 Company gains control until the date the Company 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 Company 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 Company's accounting policies. All intra-company assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company 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 Company 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 Company 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 Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in other operating expenses.

When the Company 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.

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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Basis of consolidation (continued)

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.

The legal merger of a parent and a subsidiary does not represent a business combination, so neither the acquisition method nor pooling of interest method apply.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company 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 Company'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.

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

Insurance 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 profit or loss.

Insurance contract liabilities

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 expiration date of each insurance policy. The Company reviews its unexpired risk based on the historical performance of separate business lines to determine the overall change in expected claims. The differences between the unearned premium reserves, loss provisions and the expected claims are recognised in the consolidated profit or loss 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 costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortized on a straight line basis over the life of the contract.

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.

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 Company determines the classification of its financial assets upon initial recognition. The classification depends on the purpose for which the investments were acquired or originated.

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 profit or loss 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 profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Fair value measurement

The Company measures financial instruments, such as 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 24.

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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Company. 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.

Property and equipment

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

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

Following initial recognition at cost, office 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.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity in other reserves. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in other reserves in the equity.

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	100
Furniture and fixtures	10
Computers	5
Motor vehicles	5

The asset's residual value, useful life 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 profit or loss in the year the asset is derecognized.

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

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Investment property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the year in which they arise.

Investment property is 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 profit or loss in the period of derecognition.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in the consolidated profit or loss when the borrowings are derecognised as well as through the amortization process.

Allowances for impairment of financial assets

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

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

Assets carried at amortized cost

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

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

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 profit or loss, 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 profit or loss.

(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 Company of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired.
- The Company 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 Company 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 Company 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 Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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 profit or loss.

Taxation

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

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

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

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

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

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

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

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

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

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognized as intangible assets only when the Company 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 Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Share-based transactions

Senior executives of the Company receive share-based compensation, whereby employees render services as consideration for the equity instruments of BGEO and Georgia Healthcare Group PLC (“GHG”). All share-based compensation plans announced are cash-settled transactions.

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

Equity

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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Equity (continued)

Dividends

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

Income and expense recognition

Net insurance revenue

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business incepted during the period, and exclude any sales-based taxes or duties.

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 profit or loss in the order that revenue is recognized over the period of risk or, for annuities, the amount of expected future benefit payments.

Net insurance claims

Insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous periods. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims, such as salaries of general practitioners. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Georgian Lari at official exchange rates declared by the National Bank of Georgia ("NBG") and effective as of the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated profit or loss as foreign exchange and translation (loss)/gain.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in foreign exchange and translation (loss)/gain. The official NBG exchange rates at 31 December 2016, 31 December 2015 and 1 January 2015, were 2.6468, 2.3949 and 1.8636 Georgian Lari to 1 US dollar, respectively.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 might have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

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

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

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

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

During 2016, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2016. The Company intends to adopt these standard when it becomes effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. Given insurance contracts are scoped out of IFRS 15, new standard will not have insignificant impact on the revenue recognition of the Company. The Company intends to adopt these standard for the periods beginning 1 January 2017.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases

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

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

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

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on its consolidated financial statements.

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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of significant accounting policies (continued)

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

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. The carrying amount of the claims incurred but not yet reported as at 31 December 2016 was GEL 3,875 (31 December 2015: GEL 2,824; 1 January 2015: GEL 2,018). Refer to Note 14.

Allowance for impairment of insurance receivables

The Company regularly reviews its insurance premiums receivable to assess impairment. For accounting purposes, the Company uses an incurred loss model for the recognition of losses on the impaired insurance premiums receivable. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Model and approach to identification of the impaired amounts and their further provisioning is mostly based on the number of days in arrears.

If there is a sign of deterioration in an individually significant customer's creditworthiness, the respective receivable is individually assessed for impairment. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment.

For collective purposes the management judgment is that historical trends can serve as a basis for predicting incurred losses and that this approach can be used to estimate the amount of recoverable debts as at the reporting period end.

Actual results may differ from the estimates and the Company's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of insurance premiums receivable as at 31 December 2016 was GEL 2,2617 (31 December 2015: GEL 2,692; 1 January 2015: GEL 2,255). Refer to Notes 6.

Recoverability of goodwill

The Company 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 Company 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. The amount of goodwill as at 31 December 2016 was GEL 3,462 (31 December 2015: GEL 3,462; 1 January 2015: GEL 3,462). Refer to Note 11.

4. Cash and cash equivalents

Cash and cash equivalents as of 31 December comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Cash on hand	41	34	116
Current accounts	4,321	6,035	7,082
Total cash and cash equivalents	**4,362**	**6,069**	**7,198**

(Thousands of Georgian Lari unless otherwise stated)

4. Cash and cash equivalents (continued)

ISSSG requirement is to maintain minimum level of cash and cash equivalents at 10% of the insurance contract liabilities subject to reservation as defined by Insurance State Supervision Service of Georgia regulatory reserve requirement resolution, which as at the reporting date amounted to GEL 699 (31 December 2015: GEL 957, 1 January 2015: GEL 571).

5. Amounts due from credit institutions

	31 December 2016	*31 December 2015*	*1 January 2015*
Bank deposits in GEL	459	6,042	5,528
Bank deposits in USD	9,554	6,203	8,426
Total amounts due from credit institutions	**10,013**	**12,245**	**13,954**

Amounts due from credit institutions are represented by short-term (for 3 to 12 months) placements and earn annual interest of 1.11% to 14.1% in 2016 (31 December 2015: 0.5% to 14.1%, 1 January 2015: 0.5% to 12.0%).

As of 31 December 2016 amounts due from credit institutions include GEL 2,363 of restricted cash in accordance with the export facility agreement with ING Bank N.V (31 December 2015; GEL 2,142, 1 January 2015: GEL 1,684 of restricted cash in accordance with the export facility agreement with ING Bank N.V and GEL 6,178 of restricted cash in accordance with facility agreement with JSC Bank of Georgia).

6. Insurance receivables

Insurance receivables as of the end of the period comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Due from policyholders	27,604	23,651	21,080
Less − allowance for impairment (Note 7)	(2,617)	(2,692)	(2,255)
Total insurance receivables	**24,987**	**20,959**	**18,825**

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

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

	Insurance receivables
1 January 2015	**2,255**
Charge	444
Write-off	(7)
31 December 2015	**2,692**
Charge	451
Write-off	(636)
Recovery	110
31 December 2016	**2,617**

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

(Thousands of Georgian Lari unless otherwise stated)

7. Loans issued

	31 December 2015	*1 January 2015*
Loans Issued in GEL	235	1,479
Loans Issued in USD	10,266	7,575
Loans Issued	**10,501**	**9,054**

In 2015 Loans Issued earn an annual interest of 14.0% to 16.0% (1 January 2015: 14.0% to 16.0%) and have remaining maturity range of 1 to 5 years (1 January 2015: 1 to 5 years). Loans issued to related parties earn an annual interest of 14% and have remaining maturity of 5 years.

In 2016 the Company transferred loans issued to the entity under common control and agreed to net off receivable for this transaction against claims payable to this counterparty.

8. Taxation

The corporate income tax expenses comprise:

	31 December 2016	*31 December 2015*
Current tax charge	–	867
Deferred tax charge/(benefit) – origination and reversal of temporary differences	458	(557)
Income tax expense	**458**	**310**

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% during years 2016 and 2015.

In 2016 the Company reported tax loss and respectively did not recognise any current income tax charge.

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

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

The Company recognized income tax charge resulting from reversal of deferred tax assets and liabilities in amount of GEL 494 in profit or loss for the year ended 31 December 2016.

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

(Thousands of Georgian Lari unless otherwise stated)

8. Taxation (continued)

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

	31 December 2016	*31 December 2015*
(Loss)/profit before tax	**(4,681)**	**1,904**
Statutory tax rate	15%	15%
Theoretical income tax (benefit)/expense at the statutory rate	**(702)**	**286**
Non-deductible expenses	51	24
Unrecognized tax loss carry forward	615	–
Effect of change in tax legislation	494	–
Income tax expense	**458**	**310**

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

	1 January 2015	*In the profit or loss*	*31 December 2015*	*In the profit or loss*	*31 December 2016*
Tax effect of deductible temporary differences					
Insurance receivables	705	370	1,075	(563)	512
Tax loss carried forward	39	44	83	(83)	–
Insurance contracts liabilities	6	37	43	(8)	35
Borrowings	78	33	111	(24)	87
Loans Issued	59	50	109	(109)	–
Other assets	68	36	104	(40)	64
Deferred tax assets	**955**	**570**	**1,525**	**(827)**	**698**
Tax effect of taxable temporary differences					
Property and equipment	304	57	361	(332)	29
Insurance contracts liabilities	–	–	–	–	–
Intangible assets	265	30	295	40	335
Other liabilities	175	(74)	101	(77)	24
Deferred tax liabilities	**744**	**13**	**757**	**(369)**	**388**
Net deferred tax assets/(liabilities)	**211**	**557**	**768**	**(458)**	**310**
Deferred income tax assets	**226**	**570**	**796**	**(486)**	**310**
Deferred income tax liabilities	**15**	**13**	**28**	**(28)**	**–**

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

(Thousands of Georgian Lari unless otherwise stated)

8. Taxation (continued)

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

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

9. Deferred acquisition costs

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

	DAC
1 January 2015	**242**
Expenses deferred (Note 20)	883
Amortization (Note 20)	(75)
At 31 December 2015	**1,050**
Expenses deferred (Note 20)	2,950
Amortization (Note 20)	(2,659)
At 31 December 2016	**1,341**

(Thousands of Georgian Lari unless otherwise stated)

10. Property and equipment

The movements in property and equipment were as follows:

	Office buildings	*Furniture and fixtures*	*Computers*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revalued amount						
31 December 2015	**4,164**	**1,268**	**1,782**	**159**	**287**	**7,660**
Additions	–	96	325	24	138	**583**
Disposals	–	(4)	(8)	(27)	(149)	**(188)**
31 December 2016	**4,164**	**1,360**	**2,099**	**156**	**276**	**8,055**
Accumulated depreciation						
31 December 2015	**203**	**589**	**1,183**	**83**	**15**	**2,073**
Depreciation charge	46	132	242	19	7	**446**
Disposals	–	–	(7)	(11)	(8)	**(26)**
31 December 2016	**249**	**721**	**1,418**	**91**	**14**	**2,493**
Net book value						
31 December 2015	**3,961**	**679**	**599**	**76**	**272**	**5,587**
31 December 2016	**3,915**	**639**	**681**	**65**	**262**	**5,562**

(Thousands of Georgian Lari unless otherwise stated)

10. Property and equipment (continued)

	Office buildings	*Furniture and fixtures*	*Computers*	*Motor vehicles*	*Leasehold improvements*	*Total*
Cost or revalued amount						
1 January 2015	**2,534**	**1,041**	**1,499**	**250**	**246**	**5,570**
Additions	44	231	287	46	47	**655**
Transfers from investment property	1,586	–	–	–	–	**1,586**
Disposals	–	(4)	(4)	(137)	(6)	**(151)**
31 December 2015	**4,164**	**1,268**	**1,782**	**159**	**287**	**7,660**
Accumulated depreciation						
1 January 2015	**172**	**462**	**986**	**154**	**10**	**1,784**
Depreciation charge	31	128	198	27	5	**389**
Disposals	–	(1)	(1)	(98)	–	**(100)**
31 December 2015	**203**	**589**	**1,183**	**83**	**15**	**2,073**
Net book value						
1 January 2015	**2,362**	**579**	**513**	**96**	**236**	**3,786**
31 December 2015	**3,961**	**679**	**599**	**76**	**272**	**5,587**

In November 2015 the building on Chavchavadze Avenue with the fair value of GEL 1,586 was transferred from investment property to office buildings as it was occupied by the Company for own use.

(Thousands of Georgian Lari unless otherwise stated)

10. Property and equipment (continued)

The Company pledges its office buildings as collateral for its borrowings. No buildings were pledged as at 31 December 2016 and 31 December 2015 (1 January 2015: GEL 1,891).

The Company engaged an independent appraiser to determine the fair value of its office buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Company's buildings was dated 31 December 2015. Subsequently the Company performed the assessment of its buildings at their own.

If the land and office buildings were measured using the cost model, the carrying amounts of the buildings as at 31 December 2016, 31 December 2015 and 1 January 2015 would be as follows:

	31 December 2016	*31 December 2015*	*1 January 2015*
Cost	4,081	4,081	2,451
Accumulated depreciation and impairment	(167)	(132)	(113)
Net carrying amount	**3,914**	**3,949**	**2,338**

11. 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 January 2015	**3,462**	**266**	**893**	**4,621**
Additions	–	1,661	825	**2,486**
31 December 2015	**3,462**	**1,927**	**1,718**	**7,107**
Additions	–	23	247	**270**
Disposals	–	–	(113)	**(113)**
31 December 2016	**3,462**	**1,950**	**1,852**	**7,264**
Accumulated amortization				
1 January 2015	**–**	**121**	**522**	**643**
Amortization charge	–	156	166	**322**
31 December 2015	**–**	**277**	**688**	**965**
Amortization charge	–	213	184	**397**
31 December 2016	**–**	**490**	**872**	**1,362**
Net book value				
1 January 2015	**3,462**	**145**	**371**	**3,978**
31 December 2015	**3,462**	**1,650**	**1,030**	**6,142**
31 December 2016	**3,462**	**1,460**	**980**	**5,902**

As of 31 December 2016, 31 December 2015 and 1 January 2015, goodwill acquired through business combinations has been allocated to the single cash-generating unit for impairment testing purposes – medical insurance business of JSC Insurance Company Imedi L.

The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget covering a three-year 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 for the cash-generating unit.

Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year period covered in financial budgets. For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating unit.

(Thousands of Georgian Lari unless otherwise stated)

11. Goodwill and other intangible assets (continued)

The effective annual growth rate in the three-year budget and discounting rate applied for impairment as of 31 December 2016 composed 10% and 13.7%, respectively.

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount CGU will not result in an impairment of goodwill.

12. Other assets

Other assets as of the end of the period comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Advances and prepayments	4,632	1,820	844
Trade receivables	2,253	140	799
Prepaid operating taxes	417	354	204
Inventory	204	265	75
Other	529	396	399
Other assets	**8,035**	**2,975**	**2,321**

Trade receivables as of 31 December 2016 include GEL 1,845 due from the entity under common control for the sale of loan issued. Ref to Note 7.

13. Equity

As of 31 December 2016, 31 December 2015 and 1 January 2015 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.

The share capital of the Company 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 2016 and 2015.

Other reserves fully comprise of the revaluation reserve for property and equipment that 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 2,200, of which 100% should be kept as cash at bank or bank deposits (31 December 2015 and 1 January 2015: GEL 1,500 and 80% kept as cash at bank or bank deposits). Bank confirmation letter is submitted to Insurance State Supervision Service of Georgia on a monthly basis in order to prove compliance with the above-mentioned regulatory requirement. The Company regularly and consistently complies with the Insurance State Supervision Service of Georgia regulatory capital requirement.

(Thousands of Georgian Lari unless otherwise stated)

14. Insurance contract liabilities

Insurance contract liabilities as of end of the period comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Insurance contracts liabilities			
Unearned premiums provision	22,235	18,021	14,754
Provisions for claims reported by policyholders	4,454	1,503	3,595
Provisions for claims incurred but not reported (IBNR)	3,875	2,824	2,018
Total insurance contracts liabilities	**30,564**	**22,348**	**20,367**

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

	31 December 2016	*31 December 2015*
At the start of the period	**22,348**	**20,367**
Premiums written during the year	65,654	61,840
Premiums earned during the year	(61,440)	(58,573)
Claims incurred during the current accident year	53,317	47,166
Claims paid during the year	(48,787)	(47,772)
Claims settlement expenses	(528)	(680)
At the end of the period	**30,564**	**22,348**

Insurance contract liabilities – terms, assumptions and sensitivities

(1) Terms and conditions

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

The Company reviews its unexpired risk based on historical performance of separate business lines to determine overall change in expected claims.

(Thousands of Georgian Lari unless otherwise stated)

14. Insurance contract liabilities (continued)

Insurance contract liabilities – terms, assumptions and sensitivities (continued)

(3) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time. The table shows the reserves for both claims reported and claims incurred but not yet reported, and cumulative payments.

The claims estimates are translated into Georgian Lari at the rate of exchange that applied at the end of the accident year.

Accident year	*2013*	*2014*	*2015*	*2016*	*Total*
At the end of accident year	87,734	60,827	46,486	53,317	
One year later	87,841	60,864	46,205		
Two years later	87,944	60,864			
Three years later	87,944				
Current estimation of cumulative claims incurred	**87,944**	**60,864**	**46,205**	**53,317**	**248,330**
At the end of accident year	(47,092)	(55,225)	(42,427)	(45,377)	
One year later	(58,013)	(60,705)	(45,818)		
Two years later	(58,226)	(60,862)			
Three years later	(87,944)				
Cumulative payments to date	**(87,944)**	**(60,862)**	**(45,818)**	**(45,377)**	**(240,001)**
Outstanding claims provision per the statement of financial position	**–**	**2**	**387**	**7,940**	**8,329**
Current estimation of surplus/(deficiency)	(210)	(37)	281		
% of surplus/(deficiency) of initial gross reserve	-0.2%	-0.1%	0.6%		

15. Borrowings

Borrowings as of end of the period comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Borrowings from local lenders	–	2,074	2,418
Borrowings from international credit institutions	11,823	14,423	13,889
Total borrowings	**11,823**	**16,497**	**16,307**

As of 31 December 2016 borrowing from international credit institutions has interest rate of 6 month LIBOR plus 1.9% with remaining maturity of 3 years (31 December 2015: 6 month Libor plus 1.9% with remaining maturity of 4 years,1 January 2015: 6 month Libor plus 1.9% with remaining maturity of 5 years). As of 31 December 2015 borrowings from local lenders represent loans payable to entities under common control which have interest rate range from 11% to 12% with maturities from 0 months to 15 months (1 January 2015: 11% to 14% with maturities from 12 months to 15 months).

(Thousands of Georgian Lari unless otherwise stated)

16. Other liabilities

Other liabilities as of the end of the period comprise:

	31 December 2016	*31 December 2015*	*1 January 2015*
Accruals for employee compensation	2,055	1,207	235
Creditors	503	1,343	475
Trade payable	–	–	3,727
Other	359	386	67
Other liabilities	**2,917**	**2,936**	**4,504**

Trade payable as of 1 January 2015 represents payable for acquisition of additional interest in the previously existing subsidiary; the subsidiary has been transferred to another entity during 2014 reorganisation.

17. Commitments and contingencies

Legal

In the ordinary course of business, the Company 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 Company.

Taxation

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

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

Financial commitments and contingencies

The Company's financial commitments and contingencies comprise the following:

	31 December 2016	*31 December 2015*	*1 January 2015*
Operating lease commitments			
Not later than 1 year	533	1,237	990
Later than 1 year but not later than 5 years	1,330	256	1,127
Financial contingencies	**1,863**	**1,493**	**2,117**

(Thousands of Georgian Lari unless otherwise stated)

18. Net Insurance revenue

Net insurance revenue comprises:

	31 December 2016	*31 December 2015*
Gross premiums written	65,654	61,840
Gross change in unearned premium provision	(4,214)	(3,267)
Net insurance revenue	**61,440**	**58,573**

19. Interest income and interest expense

Interest income and interest expense from financial instruments comprise:

	31 December 2016	*31 December 2015*
Interest income		
Amounts due from credit institutions	706	1,197
Loan issued	408	1,051
Interest income	**1,114**	**2,248**
Interest expense		
Borrowings from local lenders	(11)	(247)
Borrowings from international credit institutions	(871)	(1,930)
	(882)	**(2,177)**

20. Acquisition costs

Acquisition costs comprise:

	31 December 2016	*31 December 2015*
Acquisition costs, gross	(4,094)	(2,445)
Acquisition costs deferred (Note 9)	(2,950)	(883)
Amortization of deferred acquisition costs (Note 9)	2,659	75
Acquisition costs	**(4,385)**	**(3,253)**

21. Salaries and other employee benefits

Salaries and employee benefits comprise:

	31 December 2016	*31 December 2015*
Salaries	(3,925)	(2,806)
Insurance and other benefits	(237)	(186)
Share-based compensation	(297)	(122)
Salaries and other employee benefits	**(4,459)**	**(3,114)**

(Thousands of Georgian Lari unless otherwise stated)

22. General and administrative expenses

General and administrative expenses comprise:

	31 December 2016	*31 December 2015*
Occupancy and rent	(1,028)	(1,178)
Communications	(286)	(267)
Marketing and advertising	(227)	(144)
Utilities	(217)	(233)
Legal and consultancy	(199)	(134)
Printing	(144)	(123)
Representative	(142)	(191)
Office supplies	(99)	(160)
Bank fees and commissions	(75)	(59)
Operating taxes	(56)	(40)
Business travel and related	(38)	(37)
Charity	(26)	(48)
Personnel training	(22)	(22)
Security	(11)	(16)
Repair and maintenance of property and equipment	(9)	(11)
Other general and administrative expenses	(41)	(47)
Total general and administrative expenses	**(2,620)**	**(2,710)**

23. Risk management

The activities of the Company are exposed to various risks. Risk management therefore is a critical component of its insurance activities. Risk is inherent in the Company's activities but 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 Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The Company recognize the critical importance of having efficient and effective risk management systems in place.

Executive management of the Company monitors and manages risks on a regular basis, by assigning tasks, creating different working groups and setting up risk management policy as well as respective guidelines and controlling their implementation and performance of relevant departments.

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

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Capital management objectives, policies and approach

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

The capital management objectives are:

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

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

The Company's capital management policy for its insurance business is to hold the least required amount of the regulatory capital and, also, to hold sufficient liquid assets to cover statutory requirements based on the directives of ISSSG. Regulations of ISSSG require that an insurance company must hold liquid assets of at least 75% of its unearned premium reserve, net of gross insurance premiums receivable, and 100% of its loss reserves. Assets eligible for inclusion in liquid assets are: cash and cash equivalents, amounts due from credit institutions, loans issued, investment property as well as other financial assets, as defined by ISSSG. Amount of such minimal liquid assets is called "Statutory Reserve".

The Statutory Reserve requirement for Imedi L as at 31 December 2016 equals to the minimal amount of liquid assets of GEL 6,990 (31 December 2015: GEL 9,565, 1 January 2015: GEL 5,714). The insurance company is fully compliant with the requirement by holding actual GEL 8,387 (31 December 2015: GEL 10,607, 1 January 2015: GEL 7,379) of total eligible liquid assets.

New regulations regarding solvency requirements to an insurer were introduced in Insurance Law of Georgia in September 2016; the regulations will become effective for the Company starting from 1 January of 2018.

Insurance risk

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

The Company primarily uses its loss ratio and its 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 insurance related operating expenses excluding interest expense divided by net insurance revenue. The Company's loss ratios and combined ratios were as follows:

	31 December 2016	*31 December 2015*
Loss ratio	86%	79%
Combined ratio	108%	98%

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Insurance risk (continued)

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

	31 December 2016	*31 December 2015*	*1 January 2015*
Healthcare	7,470	3,373	5,118
Life	667	721	348
Travel	144	222	146
Personal accident	48	11	1
	8,329	**4,327**	**5,613**

Financial risk

(1) Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for product and currency concentrations, and by monitoring exposures in relation to such limits. Also, the Company establishes and regularly monitors credit terms by types of debtors, which is a proactive tool for managing the credit risk.

The Company has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular analysis of debt service, aging of receivables, etc. Counterparty limits are established in combination with credit terms.

The credit quality review process allows the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset in the consolidated statement of financial position.

		Neither past due nor impaired	*Past due or individually impaired 31 December 2016*		*Total*
	Notes	*31 December 2016*	*Less than 91 days*	*More than 90 days*	*31 December 2016*
Amounts due from credit institutions	5	10,013	–	–	**10,013**
Insurance receivables	6	23,121	1,682	2,801	**27,604**
Trade receivables	13	2,253	–	–	**2,253**
Total		**35,387**	**1,682**	**2,801**	**39,870**

		Neither past due nor impaired	*Past due or individually impaired 31 December 2015*		*Total*
	Notes	*31 December 2015*	*Less than 91 days*	*More than 90 days*	*31 December 2015*
Amounts due from credit institutions	5	12,245	–	–	**12,245**
Insurance receivables	6	19,666	1,224	2,761	**23,651**
Trade receivables	13	140	–	–	**140**
Loan issued	8	–	–	10,501	**10,501**
Total		**32,051**	**1,224**	**13,262**	**46,537**

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Financial risk (continued)

	Notes	Neither past due nor impaired 1 January 2015	Past due or individually impaired 1 January 2015 Less than 91 days	Past due or individually impaired 1 January 2015 More than 90 days	Total 1 January 2015
Amounts due from credit institutions	5	13,954	–	–	**13,954**
Insurance receivables	6	16,639	2,073	2,368	**21,080**
Trade receivables	13	799	–	–	**799**
Loan issued	8	–	–	9,054	**9,054**
Total		**31,392**	**2,073**	**11,422**	**44,887**

The Company does not have a credit rating system to evaluate neither past due nor impaired loans.

As at 31 December of 2016 amounts due from credit institutions includes GEL 2,363 (31 December 2015: GEL 7,214, 1 January 2015: GEL 8,426) in the banks having credit ratings from international credit rating agencies.

(2) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet cash commitments associated with financial instruments. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

The Company manages the maturities of its financial assets and liabilities for better matching, which helps the Company additionally mitigate the liquidity risk. The major liquidity risks confronting the Company are the daily calls on its available cash resources in respect of supplier contracts, claims arising from insurance contracts and the maturity of borrowings.

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

31 December 2016	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	4,362	–	**4,362**
Amounts due from credit institutions	10,013	–	**10,013**
Insurance receivables	24,987	–	**24,987**
Loans issued	–	–	**–**
Other assets	8,035	–	**8,035**
Total assets	**47,397**	**–**	**47,397**
Liabilities			
Insurance contract liabilities (except UPR)	8,329	–	**8,329**
Claims payable	2,744	–	**2,744**
Borrowings	4,298	7,525	**11,823**
Other liabilities	2,917	–	**2,917**
Total liabilities	**18,288**	**7,525**	**25,813**
Net position	**29,109**	**(7,525)**	**21,584**
Accumulated gap	**29,109**	**21,584**	

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Financial risk (continued)

31 December 2015	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	6,069	–	**6,069**
Amounts due from credit institutions	12,245	–	**12,245**
Insurance receivables	20,959	–	**20,959**
Loans issued	10,501	–	**10,501**
Other assets	2,975	–	**2,975**
Total assets	**52,749**	**–**	**52,749**
Liabilities			
Insurance contract liabilities (except UPR)	4,327	–	**4,327**
Claims payable	6,514	–	**6,514**
Borrowings	5,789	10,708	**16,497**
Other liabilities	2,534	402	**2,936**
Total liabilities	**19,164**	**11,110**	**30,274**
Net position	**33,585**	**(11,110)**	**22,475**
Accumulated gap	**33,585**	**22,475**	

1 January 2015	*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**
Other assets	2,321	–	**2,321**
Total assets	**51,352**	**–**	**51,352**
Liabilities			
Insurance contract liabilities (except UPR)	5,613	–	**5,613**
Claims payable	4,035	–	**4,035**
Borrowings	5,032	11,275	**16,307**
Other liabilities	4,504	–	**4,504**
Total liabilities	**19,184**	**11,275**	**30,459**
Net position	**32,168**	**(11,275)**	**20,893**
Accumulated gap	**32,168**	**20,893**	

Amounts and maturities in respect of the insurance contract liabilities are based on management's best estimate based on statistical techniques and past experience. Management believes that the current level of the Company's liquidity is sufficient to meet its all present obligations and settle liabilities in timely manner.

The Company also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps.

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Financial risk (continued)

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

As at 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	2,440	2,520	9,162	**14,122**
Other financial liabilities	–	445	–	**445**
Total undiscounted financial liabilities	**2,440**	**2,965**	**9,162**	**14,567**

As at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	4,015	2,115	12,180	**18,310**
Other financial liabilities	213	402	402	**1,017**
Total undiscounted financial liabilities	**4,228**	**2,517**	**12,582**	**19,327**

As at 1 January 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	3,682	1,666	13,118	**18,466**
Other financial liabilities	3,727	–	–	**3,727**
Total undiscounted financial liabilities	**7,409**	**1,666**	**13,118**	**22,193**

(3) 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.

(4) 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. As at 31 December, the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	31 December 2016	
	GEL	*USD*
Amounts due from credit institutions	7.59%	4.99%
Borrowings	n/a	13.91%

	31 December 2015	
	GEL	*USD*
Amounts due from credit institutions	11.82%	2.89%
Borrowings	12.00%	14.59%

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Financial risk (continued)

	1 January 2015	
	GEL	***USD***
Amounts due from credit institutions	9.90%	7.20%
Borrowings	11.10%	14.70%

The Company has floating interest rate borrowings linked to LIBOR rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change:

31 December 2016	***Increase in basis points***	***Sensitivity of interest expense***
LIBOR	-0.71%	92
	0.71%	(92)

31 December 2015	***Increase in basis points***	***Sensitivity of interest expense***
LIBOR	-0.49%	77
	0.49%	(77)

1 January 2015	***Increase in basis points***	***Sensitivity of interest expense***
LIBOR	-0.01%	1
	0.01%	(1)

(5) Currency risk

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

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2016 and 31 December 2015 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss, while a positive amount reflects a net potential increase.

	31 December 2016			
	GEL	***USD***	***EUR***	***Total***
Assets				
Cash and cash equivalents	4,279	77	6	**4,362**
Amounts due from credit institutions	459	9,554	–	**10,013**
Loans Issued	–	–	–	**–**
Insurance receivables	24,965	22	–	**24,987**
Total assets	**29,703**	**9,653**	**6**	**39,362**
Liabilities				
Insurance contract liabilities	30,003	138	423	**30,564**
Borrowings	–	11,823	–	**11,823**
Other liabilities	2,472	445	–	**2,917**
Total liabilities	**32,475**	**12,406**	**423**	**45,304**
Net position	**(2,772)**	**(2,753)**	**(417)**	**(5,942)**
Increase in currency rate in %		14.0%	17.5%	
Effect on profit		(385)	(73)	
Decrease in currency rate in %		-7.0%	-10.5%	
Effect on profit		193	44	

(Thousands of Georgian Lari unless otherwise stated)

23. Risk management (continued)

Financial risk (continued)

	31 December 2015			
	GEL	***USD***	***EUR***	***Total***
Assets				
Cash and cash equivalents	2,967	3,097	5	**6,069**
Amounts due from credit institutions	6,042	6,203	–	**12,245**
Loans Issued	4,345	6,156	–	**10,501**
Insurancereceivables	20,789	170	–	**20,959**
Total assets	**34,143**	**15,626**	**5**	**49,774**
Liabilities				
Insurance contract liabilities	22,066	199	83	**22,348**
Borrowings	2,074	14,423	–	**16,497**
Other liabilities	1,852	1,084	–	**2,936**
Total liabilities	**25,992**	**15,706**	**83**	**41,781**
Net position	**8,151**	**(80)**	**(78)**	**7,993**
Increase in currency rate in %		15.0%	20.0%	
Effect on profit		(12)	(16)	
Decrease in currency rate in %		-15.0%	-20.0%	
Effect on profit		12	16	

	1 January 2015			
	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**
Other liabilities	636	3,868	–	**4,504**
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	(63)	
Decrease in currency rate in %		-23.4%	-23.4%	
Effect on profit		(521)	63	

24. Fair values measurements

Fair value hierarchy

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability. The Company 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.

(Thousands of Georgian Lari unless otherwise stated)

24. Fair values measurements (continued)

Fair value hierarchy (continued)

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

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2016*
Assets measured at fair value				
Office buildings	–	–	3,915	**3,915**
Assets for which fair values are disclosed				
Cash and cash equivalents	4,362	–	–	**4,362**
Amounts due from credit institutions	–	10,013	–	**10,013**
Liabilities for which fair values are disclosed				
Borrowings	–	11,823	–	**11,823**

	Level 1	*Level 2*	*Level 3*	*Total 31 December 2015*
Assets measured at fair value				
Office buildings	–	–	3,961	**3,961**
Assets for which fair values are disclosed				
Cash and cash equivalents	6,069	–	–	**6,069**
Amounts due from credit institutions	–	12,245	–	**12,245**
Loan Issued	–	–	10,501	**10,501**
Liabilities for which fair values are disclosed				
Borrowings	–	14,423	2,074	**16,497**

	Level 1	*Level 2*	*Level 3*	*Total 1 January 2015*
Assets measured at fair value				
Investment property	–	–	1,138	**1,138**
Office buildings	–	–	2,362	**2,362**
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**
Liabilities for which fair values are disclosed				
Borrowings	–	13,889	2,418	**16,307**

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 Company's estimate of assumptions that a market participant would make when valuing the instruments.

(Thousands of Georgian Lari unless otherwise stated)

24. Fair values measurements (continued)

Fair value hierarchy (continued)

Office buildings and Investment Property

The fair value of office buildings and investment property as at 31 December 2016, 31 December 2015 and 1 January 2015 is derived by certain inputs that are not based on observable market data. The value of the assets is measured using the market approach or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable land and buildings respectively. The cost approach reflects the amount that would be required currently to replace the service capacity of the asset.

	31 December 2016	*Valuation technique*	*Significant unobservable inputs*	*Amount*	*Other key information*	*Area*	*Sensitivity of the input to fair value*
Property and equipment	**3,915**						
	2,118	Market approach	Price per square meter	2,057-2,284	Square meters, building	211; 619	increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	229	Cost approach	Replacement cost per square meter	188	Square meters, building	1,327	increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value
			Developers' profit margin	10%			increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value
			Land price per square meter	5	Square meters, land	5,782	increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	1,568	Market approach	Price per square meter	2,716	Square meters, building	584	increase (decrease) in the price per square meter would result in increase (decrease) in fair value

	31 December 2015	*Valuation technique*	*Significant unobservable inputs*	*Amount*	*Other key information*	*Area*	*Sensitivity of the input to fair value*
Property and equipment	**3,943**						
	2,135	Market approach	Price per square meter	2,057-2,284	Square meters, building	211; 619	increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	240	Cost approach	Replacement cost per square meter	188	Square meters, building	1,327	increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value
			Developers' profit margin	10%			increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value
			Land price per square meter	5	Square meters, land	5,782	increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	1,586	Market approach	Price per square meter	2,716	Square meters, building	584	increase (decrease) in the price per square meter would result in increase (decrease) in fair value

	1 January 2015	*Valuation technique*	*Significant unobservable inputs*	*Amount*	*Other key information*	*Area*	*Sensitivity of the input to fair value*
Investment property	**1,138**	Market approach	Price per square meter	3,473	Square meters, building	584	increase (decrease) in the price per square meters would result in increase (decrease) in fair value
Property and equipment	**2,362**						
	2,119	Market approach	Price per square meter	2,057-2,284	Square meters, building	211; 619	increase (decrease) in the price per square meter would result in increase (decrease) in fair value
	243	Cost approach	Replacement cost per square meter	188	Square meters, building	1,327	increase (decrease) in the replacement cost per square meter would result in increase (decrease) in fair value
			Developers' profit margin	10%			increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value
			Land price per square meter	5	Square meters, land	5,782	increase (decrease) in the price per square meter would result in increase (decrease) in fair value

(Thousands of Georgian Lari unless otherwise stated)

24. Fair values measurements (continued)

Fair value hierarchy (continued)

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements. As at 31 December 2016, 31 December 2015 and 1 January 2015, carrying values of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position were not significant different to their fair values.

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.

Fixed 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.

25. Related party transactions

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

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

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

	31 December 2016
	Entities under common control*
Assets	
Cash and cash equivalents	4,174
Insurance receivables	3,140
Other assets	994
	8,308
Liabilities	
Insurance contract liabilities	6,155
Claims payable	458**
	6,613
Income and expenses	
Gross earned premiums on insurance contracts	3,973
Net insurance claims	(11,639)**
General and administrative expenses	(716)
Interest income	548
Interest expense	(415)
	(8,249)

(Thousands of Georgian Lari unless otherwise stated)

25. Related party transactions (continued)

	31 December 2015	
	Parent*	***Entities under common control****
Assets		
Cash and cash equivalents	–	5,975
Amounts due from credit institutions	–	5,072
Loans issued	–	4,170
Insurance receivables	–	1,668
Other assets	–	110
	–	**16,995**
Liabilities		
Insurance contract liabilities	–	2,708
Claims payable	–	4,264**
Borrowings	–	2,074
Other liabilities	–	68
	–	**9,114**
Income and expenses		
Gross earned premiums on insurance contracts	1,115	1,637
Net insurance claims	–	(7,431)**
General and administrative expenses	(442)	(411)
Interest income	444	853
Other operating income	–	20
Interest expense	(641)	(641)
	476	**(5,973)**

	1 January 2015	
	Parent*	***Entities under common control****
Assets		
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**
Liabilities		
Insurance contract liabilities	733	2,784
Claims payable	–	1,290**
Borrowings	–	2,418
Other liabilities	53	3,984
	786	**10,476**

* *Entities under common control include BGEO subsidiaries.*

** *Claims payable to entities under common control, represent payables due to healthcare service providers incurred under insurance policies of the Company's customers. Net insurance claims represent the expenses incurred under such policies.*

******* *In August 2015 BGEO, the holding company of JSC Bank of Georgia, completed legal restructuring in accordance with National Bank of Georgia's decision to limit investments in non-banking subsidiaries by banking entities. As a result, JSC Bank of Georgia, the parent of the Company, has become the entity under common control starting from 1 August 2015.*

As of 31 December 2016 the Company holds the equity instruments of BGEO and GHG with the carrying value of GEL 418 (31 December 2015: GEL 37, 1 January 2015: GEL 93), which will be granted to the Company's employees as share-based compensation.

(Thousands of Georgian Lari unless otherwise stated)

25. Related party transactions (continued)

Compensation of key management personnel comprised the following:

	31 December 2016	*31 December 2015*
Salaries and cash bonuses	180	172
Share-based compensation	71	122
Termination expenses	164	–
Total key management compensation	**415**	**294**

26. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

31 December 2016	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	4,362	–	**4,362**
Amounts due from credit institutions	10,013	–	**10,013**
Insurance receivables	24,987	–	**24,987**
Loans issued	–	–	**–**
Current Income tax assets	757	–	**757**
Deferred income tax asset	–	310	**310**
Deferred acquisition costs	1,341	–	**1,341**
Property and equipment	–	5,562	**5,562**
Goodwill and intangible assets	–	5,902	**5,902**
Other assets	8,035	–	**8,035**
Total assets	**49,495**	**11,774**	**61,269**
Liabilities			
Insurance contract liabilities	30,564	–	**30,564**
Claims payable	2,744	–	**2,744**
Borrowings	4,298	7,525	**11,823**
Other liabilities	2,917	–	**2,917**
Total liabilities	**40,523**	**7,525**	**48,048**
Net position	**8,972**	**4,249**	**13,221**
Accumulated gap	**8,972**	**13,221**	

(Thousands of Georgian Lari unless otherwise stated)

26. Maturity analysis of assets and liabilities (continued)

31 December 2015	*Within one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	6,069	–	**6,069**
Amounts due from credit institutions	12,245	–	**12,245**
Insurance receivables	20,959	–	**20,959**
Loans issued	10,501	–	**10,501**
Current Income tax assets	359	–	**359**
Deferred income tax asset	–	796	**796**
Deferred acquisition costs	1,050	–	**1,050**
Property and equipment	389	5,198	**5,587**
Goodwill and intangible assets	322	5,820	**6,142**
Other assets	2,975	–	**2,975**
Total assets	**54,869**	**11,814**	**66,683**
Liabilities			
Insurance contract liabilities	22,348	–	**22,348**
Claims payable	6,514	–	**6,514**
Deferred income tax liabilities	–	28	**28**
Borrowings	5,789	10,708	**16,497**
Other liabilities	2,534	402	**2,936**
Total liabilities	**37,185**	**11,138**	**48,323**
Net position	**17,684**	**676**	**18,360**
Accumulated gap	**17,684**	**18,360**	

1 January 2015	*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**
Deferred acquisition costs	242	–	**242**
Investment property	–	1,138	**1,138**
Property and equipment	353	3,433	**3,786**
Goodwill and intangible assets	207	3,771	**3,978**
Other assets	2,321	–	**2,321**
Total assets	**53,426**	**8,568**	**61,994**
Liabilities			
Insurance contract liabilities	20,367	–	**20,367**
Claims payable	4,035	–	**4,035**
Deferred income tax liabilities	–	15	**15**
Borrowings	5,032	11,275	**16,307**
Other liabilities	4,504	–	**4,504**
Total liabilities	**33,938**	**11,290**	**45,228**
Net position	**19,488**	**(2,722)**	**16,766**
Accumulated gap	**19,488**	**16,766**	

Certain assets disclosed in the tables above, such as property and equipment and goodwill and intangible assets do not have a defined maturity term.

(Thousands of Georgian Lari unless otherwise stated)

Additional financial information on Composition of the Group

On the 16 November 2016 the Company merged it's subsidiary Biznes Centri Kazbegze LLC. Standalone statement of comprehensive income of the Company for the year ended 31 December 2016, excluding the income and expenses of Biznes Centri Kazbegze LLC for the period before the merger date, comprises:

	31 December 2016
Gross earned premiums on insurance contracts	61,440
Interest Income	1,316
Other operating income	87
Total revenue	**62,843**
Net insurance benefits and claims paid	(48,787)
Net change in insurance contracts liabilities	(4,002)
Claim settlement expenses	(528)
Net insurance claims	**(53,317)**
Acquisition costs	(4,385)
Salaries and other employee benefits	(4,455)
General and administrative expenses	(2,764)
Depreciation and amortization expenses	(828)
Impairment charge	(451)
Interest Expense	(882)
Foreign exchange and translation gain	(114)
Other operating expenses	(255)
Other expenses	**(14,134)**
Total claims and expenses	**(67,451)**
Loss before tax	(4,608)
Income tax charge	(458)
Net loss and total comprehensive loss for the period	**(5,066)**

Givi Giorgadze General Director

Ekaterine Kakulia Director of finance department

3 April 2017