INSURANCE COMPANY TAO LLC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2014

CONTENTS

Independent Auditor's Report

To the Participants and Management of Insurance Company Tao LLC:

We have audited the accompanying financial statements of Insurance Company Tao LLC (the "Company"), which comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch.

30 April 2015
Tbilisi, Georgia

Insurance Company TAO LLC
Statement of Financial Position
Amounts presented are in Georgian Lari

	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	7	5,210,083	4,969,579
Deposits with banks	8	815,688	852,274
Insurance receivables	9	813,984	2,032,629
Deferred acquisition costs	17	2,197	2,197
Prepaid income tax		-	209,081
Deferred tax asset	19	121,016	191,292
Other assets	10	11,748	12,991
Property and equipment	11	2,120	41,361
Intangible assets		684	1,168
TOTAL ASSETS		**6,977,520**	**8,312,572**
LIABILITIES			
Reserve for unearned premiums and additional unexpired risk reserve	12	1,091,652	2,244,812
Insurance loss reserve	13	141,071	1,630,742
Insurance payables	14	667,342	490,787
Current tax payable		30,426	-
Other liabilities	15	173,441	365,185
TOTAL LIABILITIES		**2,103,932**	**4,731,526**
EQUITY			
Charter capital	16	2,500,000	2,500,000
Retained earnings		2,373,588	1,081,046
TOTAL EQUITY		**4,873,588**	**3,581,046**
TOTAL LIABILITIES AND EQUITY		**6,977,520**	**8,312,572**

Approved for issue and signed on behalf of Management on 30 April 2015:

Lasha Khakhutaishvili
Chairman of the Board of Directors

Nestan Tkemaladze
Accountant

	Note	2014	2013
Gross premiums written	20	1,827,782	4,192,453
Change in reserve for unearned premiums and additional unexpired risk reserve	12, 20	1,153,160	3,017,552
Premiums earned	20	**2,980,942**	**7,210,005**
Gross claims paid	20	(2,170,855)	(5,208,271)
Change in loss reserve	13, 20	1,489,671	(425,226)
Claims incurred	20	**(681,184)**	**(5,633,497)**
Acquisition costs	17	(74,713)	(170,102)
Operating expenses	18	(938,276)	(1,784,833)
Provision for impairment	9, 10	(396,909)	(247,203)
Foreign exchange translation gains less losses		34,987	13,711
Other insurance income		75,011	34,823
Interest income		607,760	772,044
Profit before tax		**1,607,618**	**194,948**
Income tax expense	19	(315,076)	(279,402)
Profit/(loss) for the year		**1,292,542**	**(84,454)**
Other comprehensive income for the year		-	-
Total comprehensive income/(loss) for the year		**1,292,542**	**(84,454)**

The notes set out on pages 5 to 35 form an integral part of these financial statements.

	Charter Capital	Retained earnings	Total
Balance at 31 December 2012	**2,500,000**	**1,165,500**	**3,665,500**
Loss for the year	-	(84,454)	(84,454)
Total comprehensive loss for 2013	-	(84,454)	(84,454)
Balance at 31 December 2013	**2,500,000**	**1,081,046**	**3,581,046**
Profit for the year	-	1,292,542	1,292,542
Total comprehensive income for 2014	-	1,292,542	1,292,542
Balance at 31 December 2014	**2,500,000**	**2,373,588**	**4,873,588**

	Note	2014	2013
Cash flows from operating activities			
Profit before income tax		1,607,618	194,948
Adjustments for:			
Depreciation	11	16,314	19,779
Amortisation		484	1,407
Change in reserve for unearned premiums and additional unexpired risk reserve	12, 20	(1,153,160)	(3,017,552)
Change in loss reserve	13	(1,489,671)	425,226
Change in deferred acquisition costs	17	-	53,060
Interest income		(607,760)	(772,044)
Foreign exchange translation differences		(34,987)	(13,711)
Provision for insurance receivables and other assets	9, 10	396,909	247,203
Cash flows used in operating activities before changes in operating assets and liabilities		**(1,264,253)**	**(2,861,684)**
Changes in operating assets and liabilities			
Net decrease in restricted cash		90,100	29,830
Net increase in insurance payables		176,555	1,321
Net decrease in insurance receivables		804,530	2,650,278
Net decrease in other assets		18,449	5,245
Net (decrease)/increase in other liabilities		(191,744)	97,434
Income tax paid		-	(91,400)
Net decrease/(increase) in deposits with banks		36,586	(96,560)
Interest received		637,284	771,288
Net cash generated from operating activities		**307,507**	**505,752**
Cash flows from investing activities			
Proceeds from the sale of property and equipment		22,927	-
Acquisition of property and equipment		-	(2,698)
Net cash generated from/(used in) investing activities		**22,927**	**(2,698)**
Effect of exchange rate changes on cash and cash equivalents		170	(271)
Net increase in cash and cash equivalents		**330,604**	**502,783**
Cash and cash equivalents as at the beginning of the year		4,879,479	4,376,696
Cash and cash equivalents as at the end of the year	7	**5,210,083**	**4,879,479**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for Insurance Company TAO LLC (the "Company").

Insurance Company TAO was incorporated on 22 August 2007 under the laws of Georgia. The Company is a limited liability company set up in accordance with Georgian regulations. As at 31 December 2014 100% of ownership interest in the Company was held by JSC PrivatBank Georgia.

As of 31 December 2014, the JSC PrivatBank Georgia's immediate shareholders were PrivatBank Ukraine (the "Ultimate Parent Bank"), owning 68.31% of shares, Unimain Holdings Limited owning 29.75% (31 December 2013: 68.31% and 29.75%, respectively) and the management of the JSC PrivatBank Georgia owning 1.94% (31 December 2013: 1.94%). As of 31 December 2014 and 31 December 2013 the ultimate major shareholders of PrivatBank Ukraine were two Ukrainian citizens, Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov, who as of 31 December 2014 owned respectively 46.33% (31 December 2013: 46.33%) and 46.66% (31 December 2013: 46.66%) of the outstanding shares and neither of which individually controlled PrivatBank Ukraine. Refer to Note 27 for change in control.

Principal activity. The Company provides insurance services to legal entities and individuals principally in Georgia. Services rendered cover the following type of insurance: motor, medical, life, property, insurance of financial risks, bank guarantee, personal accident and travel.

In 2014, the Company had an average of 7 employees (31 December 2013: 21).

Registered address and place of business. The Company's registered address is:

114 Tsereteli Avenue
0119, Tbilisi
Georgia

Presentation currency. These financial statements are presented in Georgian Lari ("Lari", "GEL"), which is the official currency of Georgia.

2 Operating Environment

a) Operating environment in Georgia

The Company's principal business activities are within Georgia. Georgia continues to display certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in Georgia. The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, falling crude oil prices and economic downturn in Russia have had and may continue to have a negative impact on operating environment in the region, including Georgia, making it harder to raise international funding and resulting in weakening of the Georgian Lari. These events may have a significant impact on the Company's operations and financial position.

Management is unable to predict all developments which could have an impact on financial sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

b) Operating environment in Ukraine

In 2014 the Company was relying on continuous support of the Ultimate Parent Bank, which primarily operates in Ukraine.

2 Operating Environment (Continued)

Starting in late 2013 the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to a deterioration of the State's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The National Bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market.

The political situation in 2014 has also been volatile, with changes in the Ukrainian Parliament and the Presidency. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

The political situation in Eastern Ukraine also deteriorated in 2014 resulting in armed conflict and military activity in some parts of the Donetsk and Lugansk regions. The armed conflict in the region has put further pressure on relations between Ukraine and the Russian Federation. Escalating political tensions have had an adverse effect on the Ukrainian financial markets, resulting in a hampering of ability of Ukrainian companies and banks to obtain funding from the international and capital and loan markets. This has contributed to a significant devaluation of the Hryvnia against major currencies.

During 2014 real GDP fell by 7.5%. Actual inflation for 2014 amounted to 24.9%. EBRD forecasts Ukrainian GDP falls down by 5% in 2015.

The final resolution of the political and economic situation in Ukraine and the final effects of this are difficult to predict, but it may have further severe effects on the Ukrainian economy and the Ultimate Parent Bank's business.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Company maintains its books of account and prepares its statutory records in Georgian Lari in accordance with accounting principles prescribed by the applicable Georgian regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below:

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

3 Basis of Preparation and Significant Accounting Policies (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Company: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount, at which the financial instrument was recognised at initial recognition, less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Classification of financial assets. The Company classifies all its financial assets as loans and receivables.

Classification of financial liabilities. Financial liabilities are classified as liabilities carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Initial recognition of financial instruments. All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Derecognition of financial liabilities. The Company derecognises financial liabilities when, and only when, the Company's liabilities are settled, extinguished or expired.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Basis of Preparation and Significant Accounting Policies (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

If the Company has contractual right to withdraw term deposits before maturity at short notice without any penalty, such deposits are also included in cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Deposits with banks. Deposits with banks include term accounts with banks, and other investments with original maturities more than three months. Deposits with banks are carried at amortised cost using the effective interest method.

Insurance receivables. Receivables are accounted for on the accrual basis and are carried at amortized cost. Receivables are recorded when the legal right to receive the payment arises under the agreement.

If the Company has an objective evidence that the receivable will not be collected, the Company recognizes impairment by setting up an allowance account decreasing the net carrying value of the receivable to its recoverable amount. The impairment is recorded in the statement of comprehensive income. The Company collects evidence of impairment of insurance receivables using the same methods and estimations as those applied to impairment of financial assets carried at amortized cost.

In 2014 calculation of impairment provisions for receivables was based on the analysis of the expected maturity schedule of receivables. In 2013 calculation of impairment provisions for receivables depended on the number of days since expiry of insurance policy.

Doubtful debt provision is determined by reference to the below rates. These rates are determined by categorising items of accounts receivable into classes depending on their past due status.

All past due receivables as at the year-end are categorised into 5 groups as follows:

Class	Days overdue	% provision charge
Class 1	0 to 90 days overdue	0%
Class 2	90 to 180 days overdue	10%
Class 3	180 to 270 days overdue	30%
Class 4	270 to 360 days overdue	50%
Class 5	over 360 days overdue	100%

Insurance and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Property and equipment. Property and equipment are stated at cost less accumulated depreciation and impairment losses, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Leasehold improvements are stated at cost, less accumulated depreciation and provision for impairment, where required.

At each reporting date management assesses whether there is any indication of impairment of property and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation on items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Computers and communication equipment	4-5 years
Furniture, fixtures and other equipment	5 years
Motor vehicles	6 years
Leasehold improvements	5 years or the term of the lease whichever is shorter

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. All of the Company's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 7 years.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments, including those on expected termination, are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

Charter capital. The amount of Company's authorised charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc) shall be made only based on the decision of the Company's owners. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

All other cash or in-kind capital contributions, made by the Company's owners that were dedicated to increase the Company's charter capital but were not reflected in the Company's Charter at the end of the reporting period, are recognised as paid-in capital in the equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge /credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Description of insurance products. The Company's business is represented by the following significant types of insurance:

- ***Property insurance***

Motor insurance (CASKO). CASKO insurance contracts provide the coverage of the insured property interests in respect of any possible damage or loss incurred to the covered motor vehicle arising from road accident, theft, malicious mischief, natural disasters and fire. The company provides coverage both to individuals and to legal entities who own vehicles. Normally insurance contracts are concluded for the term of more than one year.

Real estate and other property. The typical set of risks covered by real estate insurance is classical FLEXA risks (fire, lightning, explosion, and aircraft). Along with coverage of property risks, industrial enterprises are offered the insurance against business interruption. Under these contracts, any occurrence of business interruption should arise from or due to property damage or loss. For movable property the covered risks include indemnity of losses incurred as a result of property damage or loss caused by impact of electric current, improper usage or maintenance, mechanical impact of other objects, fall from a height, damage from the liquid, etc. Normally insurance contracts are concluded for the term of one year.

- ***Accident, life and medical personal insurance***

Accident insurance. Personal insurance contracts are offered to protect the customers against the risk of death, disability or injury as a result of accident. Normally these insurance contracts are concluded for the term of one year.

Health insurance. The policies offer insurance coverage to customers – individuals and personnel of customers – legal entities in case of acute and chronic disease or injury arising on accident by arranging and covering the cost of medical services on medical treatment, including disease-prevention service, provided by medical institutions which have a contract with the Company. Normally insurance contracts are concluded for the term of one year.

Life insurance. Life represents short term and long term life insurance provided to customers who have received loan from the bank. Life insurance contracts always commence at the date of issuance of the loan and are active until the maturity date of the loan or till the date when loan is fully repaid (whichever comes earlier). Life insurance contracts cover only mortality risk and there is no savings element included.

Only in case of death insurance policies provide coverage irrespective whether the insured has policies of similar kind with other insurance companies or not.

3 Basis of Preparation and Significant Accounting Policies (Continued)

- ***Indemnity insurance***

Indemnity insurance. Indemnity insurance protects financial interests of the insured by indemnifying any possible loss or damage caused to the insured by negative financial consequences when income or capital is lost as a result of uncertainties surrounding its financial activity. The Company provides unemployment, liability or surety, title and other insurance. Normally insurance contracts are concluded for the term of one year.

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Company has uncertainty in respect of the following matters at inception of the contract: occurrence of insurance event, date of occurrence of insurance event, and claim value in respect of occurred insurance event.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

- ***Premiums written.*** Upon inception of a contract, premiums are recorded as written when the insurance coverage comes into force and are earned primarily on a pro-rata basis over the term of the related policy coverage.
- ***Reserve for unearned premiums and additional unexpired risk reserve.*** Reserve for unearned premiums and additional unexpired risk reserve ("UPR") represents the proportion of premiums written in the year that relates to unexpired terms of coverage provided by policies in force as at the end of the reporting period, calculated on a time apportionment basis.
- ***Claims paid.*** Insurance claims paid line in the statement of comprehensive income comprises claims and claims handling expenses for which funds were transferred to the claimants or service providers. Amounts recoverable on the basis of subrogation and salvage are shown as a deduction from gross claims in the statements of comprehensive income and, if material, disclosed separately in the notes to the financial statements.
- ***Loss reserve.*** Loss reserve represents the accumulation of estimates for ultimate losses and includes reserve for reported but not settled losses ("RBNS") and reserve for losses incurred but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both RBNS and IBNR. RBNS is provided in respect of material claims reported, but not settled as at the end of the reporting period. The estimation is made on the basis of information received by the Company during investigation of insurance cases after the end of the reporting period. The loss reserve is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. IBNR provisions are calculated as 2% of written premiums for health and as 5% of written premiums for other insurance and recorded as a liability of Company.
- ***Unexpired risk reserve.*** Unexpired risk reserve ("URR") is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk reserve the Company uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the end of the reporting period. For financial reporting purposes unexpired risk reserve is presented together with reserve for unearned premiums.

3 Basis of Preparation and Significant Accounting Policies (Continued)

- ***Liability adequacy test.*** At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of unamortised deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off unamortised deferred acquisition costs and subsequently by establishing a reserve for losses arising from liability adequacy tests (the unexpired risk reserve).
- ***Deferred acquisition costs.*** Acquisition costs, representing commissions, salaries and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortised over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each reporting period to ensure they are recoverable based on future estimates.

Acquisition cost. The Company pays commission to agents and brokers for acquisition of direct business. These types of commissions are recorded within the insurance activity result in the statement of comprehensive income. Commission expense is deferred and amortised over the period in which the related written premiums are earned.

Provisions. The provisions are recorded when the Company has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for services in the ordinary course of the Company's activities. Revenue is shown net of tax, returns, rebates and discounts. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- ***Premiums.*** Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.
- ***Interest income.*** Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.
- ***Regress.*** Income from regress is recognised as occurred and presented as "other insurance income" in the statement of comprehensive income.

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company's functional and presentation currency is the national currency of Georgia, Georgian Lari.

Transactions denominated in foreign currency are recorded at the exchange rate ruling at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of comprehensive income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into Lari using the official exchange rate of the National Bank of Georgia ("NBG") at the reporting date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at period-end official exchange rates of the NBG are recognised in profit or loss. Translation at period-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

At 31 December 2014, the principal rate of exchange used for translating foreign currency balances was USD 1 = GEL 1.8636 (31 December 2013: USD 1 = GEL 1.7363). Exchange restrictions and controls exist relating to converting Georgian Lari into other currencies. At present, Georgian Lari is not a freely convertible currency in most countries outside of Georgia.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Company.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Loss reserves. The estimation of the ultimate liability arising from claims made under insurance contracts involves judgement. Loss reserves represent the accumulation of estimates for incurred losses and include RBNS and IBNR. RBNS is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Company during investigation of insurance cases to be settled after the reporting date. IBNR is established based on expected ultimate loss ratios. The assumptions involved in the estimation of insurance loss reserves are described in Note 21 under management of insurance risks.

Impairment provisions for receivables. The Company makes allowances for doubtful accounts receivable (Note 9 and 10). Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements.

Tax legislation. Georgian tax, currency and customs legislation is subject to varying interpretations and can be routinely challenged by the tax authorities. Refer to Note 23.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market similar types of transactions with unrelated parties and effective interest rate analyses.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Company from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Company.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Company.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Company.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Company.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Company.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Company has not early adopted.

IFRS 9, "Financial Instruments: Classification and Measurement"(amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Company's financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Company is currently assessing the impact of the amendments on its financial statements.

6 New Accounting Pronouncements (Continued)

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Company is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment is not expected to have any material impact on the Company's financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Company is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Company is currently assessing the impact of the amendments on its financial statements.

Other revised standards and interpretations: IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016), Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016), Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016), Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016) will not have any impact on the Company's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

7 Cash and Cash Equivalents

	31 December 2014	**31 December 2013**
Cash on hand	7	7
Settlement accounts with banks	63,883	367,306
Term deposits	5,146,193	4,602,266
Total cash and cash equivalents	**5,210,083**	**4,969,579**

7 Cash and Cash Equivalents (Continued)

As of 31 December 2013 cash and cash equivalents of GEL 90,100 have been pledged as collateral with respect to the bank guarantees. As these funds were not available to finance the Company's day-to-day operations, they were excluded from cash and cash equivalents for the purposes of cash flow statement for the year ended 31 December 2013.

The analysis by credit quality of cash and cash equivalents at 31 December 2014 is as follows:

	Settlement accounts with banks	Term deposits	Total
Current and not impaired			
Related party bank (PrivatBank JSC) - unrated	63,462	5,146,193	5,209,655
BTA Bank - unrated	421	-	421
Total cash and cash equivalents (excluding cash on hand)	**63,883**	**5,146,193**	**5,210,076**

The analysis by credit quality of cash and cash equivalents at 31 December 2013 is as follows:

	Settlement accounts with banks	Term deposits	Total
Current and not impaired			
Related party bank (PrivatBank JSC) - unrated	367,306	4,602,266	4,969,572
Total cash and cash equivalents (excluding cash on hand)	**367,306**	**4,602,266**	**4,969,572**

The information on related party balances is disclosed in Note 26.

8 Deposits with Banks

The analysis by credit quality of deposits with banks at 31 December 2014 and 31 December 2013 is as follows:

	31 December 2014	31 December 2013
Term deposits with original maturity of more than three months		
Current and not impaired		
Basis Bank - with the rating B stable (Fitch Ratings)	327,922	299,473
Bank of Georgia - BB- stable (Standard & Poor's) (31 December 2013 - B+ stable (Moody's Ratings))	273,519	250,817
KSB Bank - unrated	214,247	-
BTA Bank - unrated	-	301,984
Total deposits with banks	**815,688**	**852,274**

Deposits with banks matured within 1 year as at 31 December 2014 and 31 December 2013. Carrying values of deposits with banks approximated their fair values as at 31 December 2014 and 31 December 2013.

9 Insurance Receivables

	31 December 2014	31 December 2013
Receivables arising out of direct insurance operations	2,066,708	2,871,238
Less: Provision for impairment	(1,252,724)	(838,609)
Total insurance receivables net of provision	**813,984**	**2,032,629**
Current portion	198,616	962,948
Non-current portion	615,368	1,069,681

Movements in the provision for impairment of receivables during the year ended 31 December 2014 are as follows:

	Receivables arising out of direct insurance operations	Total
Provision for impairment of receivables at 1 January 2014	**(838,609)**	**(838,609)**
Provision charge recognised during the year	(414,115)	(414,115)
Provision for impairment of receivables at 31 December 2014	**(1,252,724)**	**(1,252,724)**

Movements in the provision for impairment of receivables during the year ended 31 December 2013 are as follows:

	Receivables arising out of direct insurance operations	Total
Provision for impairment of receivables at 1 January 2013	**(589,629)**	**(589,629)**
Provision charge recognised during the year	(248,980)	(248,980)
Provision for impairment of receivables at 31 December 2013	**(838,609)**	**(838,609)**

9 Insurance Receivables (Continued)

The ageing analysis of insurance receivables as at 31 December 2014 grouped by classes according to their credit quality is as follows:

	Receivables arising out of direct insurance operations	Total
Current and not impaired	**571,582**	**571,582**
Past due but not impaired		
- less than 30 days overdue	63,691	63,691
Total past due but not impaired	**63,691**	**63,691**
Balances determined to be impaired		
- 30 to 180 days overdue	107,366	107,366
- 180 to 270 days overdue	79,329	79,329
- 270 to 360 days overdue	53,100	53,100
- over 360 days overdue	1,191,640	1,191,640
Total impaired	**1,431,435**	**1,431,435**
Less impairment provisions	(1,252,724)	(1,252,724)
Total insurance receivables	**813,984**	**813,984**

Ageing analysis of insurance receivables as at 31 December 2013 grouped by classes according to their credit quality is as follows:

	Receivables arising out of direct insurance operations	Total
Current and not impaired	**1,634,066**	**1,634,066**
Past due but not impaired		
- 30 to 90 days overdue	23,984	23,984
- 90 to 180 days overdue	314,097	314,097
- 180 to 360 days overdue	39,493	39,493
Total past due but not impaired	**377,574**	**377,574**
Balances individually determined to be impaired		
- less than 30 days overdue	31,904	31,904
- 180 to 360 days overdue	83,956	83,956
- over 360 days overdue	743,738	743,738
Total impaired	**859,598**	**859,598**
Less impairment provisions	(838,609)	(838,609)
Total insurance receivables	**2,032,629**	**2,032,629**

10 Other Assets

	31 December 2014	31 December 2013
Other financial assets		
Receivables from regress	2,428,616	2,445,822
Receivables from employees	4,837	4,422
Guarantee deposits	10,807	10,807
Less: Provision for impairment of other financial assets	(2,436,269)	(2,453,475)
Other non-financial assets		
Prepayments	9,784	9,784
Damaged cars	-	2,472
Others	1,673	859
Less: Provision for impairment of other non-financial assets	(7,700)	(7,700)
Total	**11,748**	**12,991**

As at 31 December 2014 all financial assets within Other Assets were denominated in Georgian Lari. Majority of the receivables from regress classified as financial assets within Other Assets were individually determined to be impaired as at 31 December 2014 and 31 December 2013. Carrying values of other financial assets approximated their fair values as at those dates.

Movements in the provision for impairment of other financial assets during the period ended 31 December 2014 and 31 December 2013 are as follows:

	2014	2013
Provision for impairment of other financial assets at 1 January	**(2,453,475)**	**(2,442,668)**
Recovery of provision/(provision) charge recognised during the year	17,206	(10,807)
Provision for impairment of other financial assets at 31 December	**(2,436,269)**	**(2,453,475)**

Movements in the provision for impairment of other non-financial assets during the period ended 31 December 2014 and 31 December 2013 are as follows:

	2014	2013
Provision for impairment of other non-financial assets at 1 January	**(7,700)**	**(20,284)**
Recovery of provision charge recognised during the year	-	12,584
Provision for impairment of other non-financial assets at 31 December	**(7,700)**	**(7,700)**

11 Property and Equipment

Movements in cost and accumulated depreciation of property and equipment for the periods ended 31 December 2014 and 31 December 2013 are shown in the table below:

	Computers and Office Equipment	**Vehicles**	**Leasehold improvements**	**Total**
Cost at 1 January 2013	66,212	49,468	-	115,680
Accumulated depreciation	(49,161)	(8,077)	-	(57,238)
Carrying amount at 1 January 2013	**17,051**	**41,391**	**-**	**58,442**
Additions	-	-	2,698	2,698
Depreciation charge	(11,364)	(7,977)	(438)	(19,779)
Carrying amount at 31 December 2013	**5,687**	**33,414**	**2,260**	**41,361**
Cost at 31 December 2013	66,212	49,468	2,698	118,378
Accumulated depreciation	(60,525)	(16,054)	(438)	(77,017)
Carrying amount at 31 December 2013	**5,687**	**33,414**	**2,260**	**41,361**
Disposal	-	(49,468)	-	(49,468)
Depreciation charge	(5,287)	(10,487)	(540)	(16,314)
Depreciation of disposed assets	-	26,541	-	26,541
Carrying amount at 31 December 2014	**400**	**-**	**1,720**	**2,120**
Cost at 31 December 2014	66,212	-	2,698	68,910
Accumulated depreciation	(65,812)	-	(978)	(66,790)
Carrying amount at 31 December 2014	**400**	**-**	**1,720**	**2,120**

12 Reserve for Unearned Premiums and Additional Unexpired Risk Reserve

Movements in the reserve for unearned premium and additional unexpired risk reserve were as follows:

	Total
Reserve for unearned premiums as at 1 January 2013	**5,262,364**
Decrease in reserve	(3,149,626)
Increase in additional unexpired risk reserve	132,074
Reserve for unearned premiums and additional unexpired risk reserve as at 31 December 2013	**2,244,812**
Decrease in reserve	(1,030,297)
Decrease in additional unexpired risk reserve	(122,863)
Reserve for unearned premiums and additional unexpired risk reserve as at 31 December 2014	**1,091,652**

Current and non-current portions of reserve for unearned premiums and additional unexpired risk reserve were as follows:

	Total
Current portion	1,116,831
Non-current portion	1,127,981
Reserve for unearned premiums and additional unexpired risk reserve as at 31 December 2013	**2,244,812**
Current portion	376,704
Non-current portion	714,948
Reserve for unearned premiums and additional unexpired risk reserve as at 31 December 2014	**1,091,652**

13 Insurance Loss Reserves

	31 December 2014			31 December 2013		
	RBNS	**IBNR**	**Total**	**RBNS**	**IBNR**	**Total**
Loss reserves	52,562	88,509	141,071	1,467,616	163,126	1,630,742
Current portion	52,562	88,509	141,071	1,467,616	163,126	1,630,742

13 Insurance Loss Reserves (Continued)

Movements in insurance loss reserves are as follows:

	RBNS	IBNR	Total
Loss reserves as at 1 January 2013	**548,482**	**657,034**	**1,205,516**
Net change in loss reserves	919,134	(493,908)	425,226
Loss reserves as at 31 December 2013	**1,467,616**	**163,126**	**1,630,742**
Net change in loss reserves	(1,415,054)	(74,617)	(1,489,671)
Loss reserves as at 31 December 2014	**52,562**	**88,509**	**141,071**

14 Insurance Payables

	31 December 2014	31 December 2013
Payables arising from outward reinsurance operations	435,399	435,399
Agents and brokers commissions payable	51,600	55,388
Claims payable	180,343	-
Total insurance payables	**667,342**	**490,787**
Current portion	667,342	490,787

As at 31 December 2014 and 31 December 2013 all insurance payables were denominated in Georgian Lari and their carrying values approximated their fair values.

15 Other Liabilities

	31 December 2014	31 December 2013
Settlements with creditors	138,153	266,602
Total financial liabilities	**138,153**	**266,602**
Advances received	25,584	25,584
Provision for potential legal liabilities	5,000	49,401
Accrued salaries and bonuses	1,908	20,029
Other liabilities	2,796	3,569
Total liabilities	**173,441**	**365,185**
Current portion	173,441	365,185

As at 31 December 2014 all financial liabilities within Other Liabilities were denominated in Georgian Lari and their carrying values approximated their fair values as at 31 December 2014 and 31 December 2013.

16 Charter Capital

As at 31 December 2014, the owners of the Company had fully contributed charter capital of GEL 2,500,000 (31 December 2013: GEL 2,500,000).

17 Acquisition Costs

	2014	**2013**
Acquisition costs accrued during the year	74,713	117,042
Change in deferred acquisition costs	-	53,060
Total acquisition costs	**74,713**	**170,102**

All acquisition costs incurred during the periods ended 31 December 2014 and 31 December 2013 were related to brokerage and agents' commissions.

Changes in deferred acquisition costs are presented below:

	31 December 2014	**31 December 2013**
Deferred acquisition costs as at 1 January	**2,197**	**55,257**
Change in deferred acquisition costs	-	(53,060)
Deferred acquisition costs as at 31 December	**2,197**	**2,197**
Current portion	2,197	2,197

18 Operating Expenses

	2014	**2013**
Staff costs	300,877	521,239
Rent	529,689	521,187
Professional services	49,334	79,238
Depreciation and amortisation	16,798	21,185
Car maintenance and fuel	13,387	15,197
Repair and maintenance	6,594	188
Utilities	5,347	8,657
Representation expenses	3,300	1,118
Communication expenses	2,764	4,801
Bank charges	1,966	471,591
Insurance policy printing	1,691	25,040
Advertising and marketing	1,156	705
Insurance of employees	490	2,678
Stationery	346	2,474
Provision for potential legal liabilities	55	49,401
Business trip expenses	-	3,797
Computer expenses	-	271
Other expenses	4,482	56,066
Total operating expenses	**938,276**	**1,784,833**

Included in staff costs is tax contribution of GEL 60,175 (2013: tax contributions of GEL 104,248).

19 Income Taxes

Income tax expense comprises the following:

	2014	2013
Current tax charge	244,800	265,540
Deferred tax charge	70,276	13,862
Income tax expense for the year	**315,076**	**279,402**

The income tax rate applicable to the Company's income in 2014 is 15% (2013: 15%). A reconciliation between the expected and actual taxation charge is provided below.

	2014	2013
Profit before tax	**1,607,618**	**194,948**
Theoretical tax charge at the applicable statutory rate 15% (2013: 15%)	241,143	29,242
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-tax deductible expenditures	73,933	250,160
Income tax expense for the year	**315,076**	**279,402**

Differences between IFRS and relevant statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15%:

	31 December 2013	Credited/(charged) to profit or loss	31 December 2014
Tax effect of deductible temporary differences			
Provision for impairment of receivables	410,022	(289,006)	121,016
Insurance reserves	(211,665)	211,665	-
Other liabilities	(7,065)	7,065	-
Total deferred tax asset	**191,292**	**(70,276)**	**121,016**

	1 January 2013	Credited/(charged) to profit or loss	31 December 2013
Tax effect of deductible temporary differences			
Amortisation of acquisition costs	(7,959)	7,959	-
Provision for impairment of receivables	372,675	37,347	410,022
Insurance reserves	(159,562)	(52,103)	(211,665)
Other liabilities	-	(7,065)	(7,065)
Total deferred tax asset	**205,154**	**(13,862)**	**191,292**

In 2014 the Company changed its assessment of recoverability of deferred tax asset arising on GEL 1,629,496 of regress receivable.

20 Analysis of Premiums and Claims

An analysis of premiums and claims by line of business for the year ended 31 December 2014 is provided in the following table:

	Health	Life	Motor	Financial risk and bank guarantees	Other	Total
Gross premiums written						
- direct business	95,521	1,354,695	192,208	29,495	155,863	1,827,782
Change in reserve for unearned premiums and additional unexpired risk reserve	398,005	479,508	279,022	786	(4,161)	1,153,160
Premiums earned	**493,526**	**1,834,203**	**471,230**	**30,281**	**151,702**	**2,980,942**
Gross claims paid	(1,997,442)	(1,050)	(161,712)	-	(10,651)	(2,170,855)
Change in insurance loss reserves	1,441,650	10,367	36,397	5,773	(4,516)	1,489,671
Claims incurred	**(555,792)**	**9,317**	**(125,315)**	**5,773**	**(15,167)**	**(681,184)**

An analysis of premiums and claims by line of business for the year ended 31 December 2013 is provided in the following table:

	Health	Life	Motor	Financial risk and bank guarantees	Other	Total
Gross premiums written						
- direct business	3,564,032	1,762,034	670,308	14,237	195,985	6,206,596
Cancellation of direct contracts	(2,014,143)	-	-	-	-	(2,014,143)
Change in reserve for unearned premiums and additional unexpired risk reserve	61,302	335,059	(198,220)	11,616	95,279	305,036
Change in reserve for unearned premiums and additional unexpired risk reserve on cancelled contracts	2,712,516	-	-	-	-	2,712,516
Premiums earned	**4,323,707**	**2,097,093**	**472,088**	**25,853**	**291,264**	**7,210,005**
Gross claims paid	(5,011,404)	(3,246)	(142,880)	-	(50,741)	(5,208,271)
Change in insurance loss reserves	(519,073)	6,762	23,354	10,367	53,364	(425,226)
Claims incurred	**(5,530,477)**	**3,516**	**(119,526)**	**10,367**	**2,623**	**(5,633,497)**

Excess of Change in reserve for unearned premiums and additional unexpired risks reserve over Gross premiums written is caused by cancelation of direct contracts and Gross premiums written are shown net of cancellation of the respective premiums.

21 Management of Insurance and Financial Risks

The Company issues insurance contracts that expose it to insurance risk or financial risk or both, including currency risk, interest rate risk, liquidity risk, credit risk as well as operational and legal risks.

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable for each individual insurance contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Company manages insurance risk by means of established internal procedures which include:

- Establishment of underwriting procedures intended for underwriting department to monitor loss performance of the insurance portfolios by lines of business;
- Monitoring by the management of assets and liabilities aiming to match the pattern of expected claim payments with the dates of maturity of assets;
- Diversification over several classes of insurance business.

Estimation of insurance loss reserves

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. IBNR provisions are generally calculated as 2% of written premiums for health and as 5% of written premiums for other insurance, and subsequently sufficiency of loss reserves is subject to loss adequacy test.

Sensitivity analysis

If the Company had calculated IBNR as 4% of written premiums for health and 10% of written premiums for other insurance, the profit before tax would have decreased by GEL 88,509 in 2014 and profit before tax would have decreased by GEL 163,126 in 2013.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract. Mostly claims are settled within a short period of time, which historically has not exceeded 3 months from the end of the contract term. There are several variables that affect the amount and timing of cash flows from insurance contracts. These mainly relate to the inherent risks of the activities carried out by both corporate and individual contract holders and the risk management procedures they adopted. The compensation paid on insurance contracts in the Company's portfolio primarily consists of monetary awards granted for:

- insurance of financial risks and bank guarantee;
- health insurance;
- life insurance;
- motor insurance - physical damage to motor vehicles;
- physical damage to property (for property insurance covers); and
- other insurance - personal accident and physical damage suffered by the third parties (caused by the vehicle owners).

In case of claims for financial risks and bank guarantee the Company pays lump-sum that is calculated as the financial loss suffered by default of the debtor to settle obligations to the insured party.

21 Management of Insurance and Financial Risks (Continued)

Claims on health insurance policies are lump-sum payments to clinics and pharmacy shops based on the bills provided for services rendered or medicine sold to insured party.

Claims in case of life insurance policies are lump-sum payments to the beneficiary.

In cases of physical damage to motor vehicles the amount of claim payable by the Company is usually equal to the cost of repairs of the damage to a car.

In cases of physical damage to property the amount of claim payable by the Company is usually equal to the cost of repairs of the damaged property.

In case of personal accident the amount of claim payable by the Company is usually rehabilitation expenses that the injured party will incur as a result of the accident.

Diversification

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Concentration of insurance risk

The concentration of insurance risk in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of the maximum amount of insurance liabilities arising from insurance contracts (except for health and travel insurance):

	31 December 2014	**31 December 2013**
Life	85,126,049	108,736,103
Personal accident	35,678,391	61,974,335
Labour policies	12,746,000	18,306,000
Motor	10,508,083	20,272,202
Property	7,180,000	8,955,557
Bank guarantees	393,631	1,307,883
Financial loss	220,000	12,289
Total maximum exposure to risk	**151,852,154**	**219,564,370**

"Life" represents short term and long term life insurance provided to customers who have received loan from the bank. Life insurance contracts always commence at the date of issuance of the loan and are active until the maturity date of the loan or till the date when loan is fully repaid (whichever comes earlier). Life insurance contracts cover only mortality risk and there is no savings element included.

All insurance risks disclosed in table above are concentrated in Georgia.

Financial risk. The Company is exposed to a range of financial risks through its financial assets, financial liabilities, insurance assets, reinsurance assets, insurance liabilities and reinsurance liabilities. The components of this financial risk are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign currency denominated assets (deposits with banks and receivables) and liabilities (payables and other liabilities) give rise to foreign exchange exposure. The Company does not have any formal procedures on managing currency risk, however, management is quite well informed on the tendencies in the economy and has undertaken several steps to minimise its currency risks. These steps mainly include placing deposits and issuing policies in local currency. The effect of the sensitivity analysis is not material for these financial statements.

21 Management of Insurance and Financial Risks (Continued)

Interest rate risk. The Company's interest bearing assets usually are placements at term deposit accounts at local banks as disclosed in Note 7 and Note 8. These term deposits are placed at fixed interest rates. The Company usually does not have significant interest-bearing liabilities. The Company does not have any formal procedure on managing interest rate risk, however, management usually diversifies its deposit placements among number of local commercial banks. Management assess the impact of any individual placement in light of this requirement. The weighted average interest rate on bank deposits as at 31 December 2014 was approximately 10% per annum (31 December 2013: 15% per annum).

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk is managed by the management of the Company. The Company is exposed to regular calls on its available cash resources from claims to be paid. At 31 December 2014, management does not believe the current maturity profile of the Company's assets and liabilities leads to any material liquidity risk, taking into account the level of cash and deposits as at year end, which could be available at short notice if required. The contractual maturity analysis of financial and insurance assets and liabilities at 31 December 2014 is as follows:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Total**
Assets					
Cash and cash equivalents	5,210,083	-	-	-	**5,210,083**
Deposits with banks	-	487,765	327,923	-	**815,688**
Insurance receivables	93,739	28,291	76,586	615,368	**813,984**
Other financial assets	7,991	-	-	-	**7,991**
Total financial and insurance assets	**5,311,813**	**516,056**	**404,509**	**615,368**	**6,847,746**
Liabilities					
Insurance payables	667,342	-	-	-	**667,342**
Insurance loss reserve	141,071	-	-	-	**141,071**
Other financial liabilities	138,153	-	-	-	**138,153**
Total financial and insurance liabilities	**946,566**	**-**	**-**	**-**	**946,566**
Net liquidity gap at 31 December 2014	**4,365,247**	**516,056**	**404,509**	**615,368**	**5,901,180**

The contractual maturity analysis of financial and insurance assets and liabilities at 31 December 2013 is as follows:

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Total**
Assets					
Cash and cash equivalents	4,969,579	-	-	-	**4,969,579**
Deposits with banks	552,801	-	299,473	-	**852,274**
Insurance receivables	441,750	198,889	322,309	1,069,681	**2,032,629**
Other financial assets	7,576	-	-	-	**7,576**
Total financial and insurance assets	**5,971,706**	**198,889**	**621,782**	**1,069,681**	**7,862,058**
Liabilities					
Insurance payables	490,787	-	-	-	**490,787**
Insurance loss reserve	1,529,670	101,072	-	-	**1,630,742**
Other financial liabilities	266,602	-	-	-	**266,602**
Total financial and insurance liabilities	**2,287,059**	**101,072**	**-**	**-**	**2,388,131**
Net liquidity gap at 31 December 2013	**3,684,647**	**97,817**	**621,782**	**1,069,681**	**5,473,927**

21 Management of Insurance and Financial Risks (Continued)

Credit risk. The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Key areas where the Company is exposed to credit risk are:

(i) amounts due from insurance contract holders;
(ii) cash and deposits at banks; and
(iii) receivables from regress and other financial assets.

The Company's maximum exposure to risk by class of assets is as follows:

	Note	31 December 2014	31 December 2013
Cash and cash equivalents	7	5,210,083	4,969,579
Deposits with banks	8	815,688	852,274
Insurance receivables	9	813,984	2,032,629
Other financial assets	10	7,991	7,576
Total maximum exposure to credit risk		**6,847,746**	**7,862,058**

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved annually by the Board of Directors.

In assessing the credit quality of financial assets the Company considers the nature of counterparty, historical information about counterparty default rates and any other available information which can be used to assess credit quality.

22 Management of Capital

The Company's objectives when managing capital are (i) to comply with capital requirements set by Georgian law and the insurance regulator (LEPL Insurance State Supervision Service of Georgia), and (ii) to safeguard the Company's ability to continue as a going concern.

According to the Insurance supervisory regulation, insurance companies are subject to the following capital regulatory requirements:

1. Required capital is determined for life and non-life insurance separately and is the higher of:

Minimum regulatory capital required by the regulator, which is GEL 1,500,000 for life insurance (31 December 2013: GEL 1,500,000).

Minimum regulatory capital required by the regulator, which is GEL 1,000,000 for non-life insurance (31 December 2013: GEL 1,000,000).

2. At all level of operations Insurance company must maintain 80% of minimum capital on bank accounts in banks with Georgian License.

22 Management of Capital (Continued)

The table below summarises the requirements and the Company's compliance with those requirements:

	2014	2013
Requirement on minimum regulatory capital of the company for life and non-life insurance	1,500,000	1,500,000
Regulatory capital held as at 31 December	2,500,000	2,500,000
Requirement to maintain 80% of minimum capital on bank accounts with Georgian License	1,200,000	1,200,000
Total cash kept on unrestricted bank accounts with Georgian License as at 31 December	6,025,771	5,731,753

Management of the Company believes that as at 31 December 2014 and 31 December 2013 and during the periods then ended the Company complied with all requirements related to the minimum required capital.

23 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, legal claims against the Company are received. On the basis of own estimates and internal and external professional advice as at 31 December 2014 provision of GEL 5,000 has been recorded for potential legal liabilities (31 December 2013: 49,401).

Tax legislation. 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 state authorities. Recent events within Georgia suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2014 no provision for potential tax liabilities has been recorded.

On 18 December 2013, the instruction on assessment of international controlled operations was approved by the Minister of Finance of Georgia. The instruction provides an implementation guide for transfer pricing rules and principles (together referred to as "TP legislation") introduced by new the Tax Code of Georgia effective from 1 January 2011.

The TP legislations appear to be technically elaborate and aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) and it provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some unrelated parties), if the transaction price is not arm's length.

Management believes that it has implemented internal controls to be in compliance with the TP legislation. Given that the practice of implementation of the Georgian transfer pricing rules has not yet developed, the impact of any challenge of the Company's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Company.

Capital expenditure commitments. As at 31 December 2014 and 31 December 2013, the Company had no significant capital expenditure commitments.

Operating lease commitments. As at 31 December 2014 and 31 December 2013, the Company had no significant operating lease commitments.

24 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition and Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

As at 31 December 2014 and 31 December 2013 all of the Company's financial assets were included in "loans and receivables" category.

As at 31 December 2014 and 31 December 2013 all of the Company's financial liabilities were carried at amortised cost.

25 Fair Value of Financial Instruments

The Company has no assets or liabilities carried at fair value. Fair values of financial assets and liabilities at 31 December 2014 and 31 December 2013 approximate their carrying amounts. Fair value was determined using discounted cash flow model and information about prevailing market interest rates. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity (level 3 of fair value hierarchy).

26 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions are entered into in the normal course of business with shareholder, companies with which the Company is under common control and other related parties.

Significant outstanding balances as at 31 December 2014 and 31 December 2013, as well as significant income and expenses with related parties for the periods then ended are as follows:

	Relationship	2014	2013
Current bank accounts and deposits:			
JSC PrivatBank (contractual interest rate: 31 December 2014: 10.0 - 10.5% p.a; 31 December2013: 10.5 - 15.0% p.a)	Participant	5,209,655	4,969,572
Insurance accounts receivable:			
Praim Leasing Ltd	Entity under common control	564,791	-
JSC PrivatBank	Participant	58,591	181,702
Tao Guard Ltd.	Entity under common control	4,041	12,310
Georgian Manganese Ltd	Entity under control of major beneficial shareholders	-	258,073
Reserve for unearned premiums and additional unexpired risk reserve:			
Praim Leasing Ltd	Entity under common control	(523,704)	(475,785)
JSC PrivatBank	Participant	(54,709)	(180,922)
Tao Guard Ltd.	Entity under common control	-	(10,701)
Other liabilities:			
JSC PrivatBank	Participant	-	(150)

26 Related Party Transactions (Continued)

The transactions with related parties during the periods ended 31 December 2014 and 31 December 2013 are as follows:

	Relationship	2014	2013
Gross premiums written:			
Praim Leasing Ltd	Entity under common control	201,706	509,545
JSC PrivatBank	Participant	95,293	99,938
Tao Guard Ltd.	Entity under common control	8,859	445
Georgian Manganese Ltd.	Entity under control of major beneficial shareholders		
- Gross premiums written		-	167,114
- Cancellation of direct contracts		-	(1,457,942)
Change in reserves for unearned premiums and additional unexpired risk reserve:			
Praim Leasing Ltd	Entity under common control	68,828	(475,785)
JSC PrivatBank	Participant	126,211	180,318
Tao Guard Ltd.	Entity under common control	10,701	(636)
Georgian Manganese Ltd.	Entity under control of major beneficial shareholders	-	2,504,465
Interest income on current bank accounts and deposits:			
JSC PrivatBank	Participant	540,519	675,523
Bank charges on current bank accounts and deposits:			
JSC PrivatBank	Participant	(1,724)	(472,129)
Rent:			
JSC PrivatBank	Participant	(1,650)	(1,750)

Negative Gross premiums written and positive Change in reserve for unearned premiums and additional unexpired risks reserve in respect of Georgian Manganese Ltd. is caused by cancelation of the direct contract.

Key management comprises of the Chairman of the Board of Directors. Total remuneration of the key Management was as follows:

	2014	2013
Short-term employee benefits	108,000	108,000
Bonuses	21,000	47,400
Total	**129,000**	**155,400**

Key management remuneration includes tax of GEL 25,800 (2013: GEL 31,080).

27 Events after the Reporting Date

In January 2015 100% of the shares of PrivatBank Georgia (parent of the Company) were purchased by Bank of Georgia registered in the territory of Georgia (legal address is located at ul. Gagarin, 29a, Tbilisi 0160, Georgia).