JSC Insurance Company Aldagi-BCI Group

Consolidated Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of JSC Insurance Company Aldagi-BCI -

We have audited the accompanying consolidated financial statements of JSC Insurance Company Aldagi-BCI and its subsidiaries (collectively "JSC Insurance Company Aldagi-BCI Group"), which comprise the consolidated statements of financial position as at 31 December 2010 and 2009, the consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for the years 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of JSC Insurance Company Aldagi-BCI Group as at 31 December 2010 and 2009 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG LLC

5 May 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(Thousands of Georgian lari)

	Notes	*2010*	*2009*
Assets			
Goodwill and other intangible assets	6	16,147	16,137
Deferred acquisition costs	12	1,629	1,141
Property and equipment	7	10,867	8,153
Available-for-sale financial assets	8	4,576	4,431
Reinsurance assets	17	7,271	4,920
Deferred income tax assets	9	11	689
Current income tax assets	9	212	500
Prepayments for long-term assets	10	2,953	2,432
Other assets	10	3,903	1,430
Insurance and reinsurance receivables	11	19,454	20,676
Amounts due from credit institutions	13	6,659	4,683
Cash and cash equivalents	14	9,676	6,815
Total assets		**83,358**	**72,007**
Equity			
Share capital	16	7,243	7,243
Additional paid-in capital		10,565	10,565
Other reserves		431	598
Retained earnings/(accumulated losses)		2,473	(2,494)
Total equity attributable to shareholders of the Group		**20,712**	**15,912**
Non-controlling interest		1,248	1,381
Total equity		**21,960**	**17,293**
Liabilities			
Insurance contract liabilities	17	32,580	30,304
Pension benefit obligations	18	4,949	3,703
Other insurance liabilities	19	7,138	5,985
Financial liabilities	20	13,138	11,208
Deferred income tax liabilities	9	182	581
Other liabilities	21	3,411	2,933
Total liabilities		**61,398**	**54,714**
Total equity and liabilities		**83,358**	**72,007**

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

Nikoloz Gamkrelidze — General Director

Irakli Gogia — Deputy General Director

Giorgi Mindiashvili — Chief Financial Officer

5 May 2011

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

(Thousands of Georgian lari)

	Notes	*2010*	*2009*
Gross earned premiums on insurance contracts		61,040	64,699
Reinsurers' share of gross earned premiums on insurance contracts		(11,129)	(14,321)
Net insurance revenue	23	**49,911**	**50,378**
Revenue from medical services rendered		2,095	1,550
Interest income	24	949	308
Realized gain from available-for-sale financial assets		–	1,351
Translation gain		371	44
Other operating income	25	1,164	2,445
Other revenue		**4,579**	**5,698**
Total revenue		**54,490**	**56,076**
Gross insurance benefits and claims paid		(26,941)	(46,435)
Reinsurers' share of gross insurance benefits and claims paid		2,486	15,111
Gross change in insurance contract liabilities		(1,370)	12,533
Reinsurers' share of gross change in insurance contract liabilities		831	(11,627)
Net insurance claims	26	**(24,994)**	**(30,418)**
Acquisition costs, net of reinsurance	27	(3,831)	(3,456)
Salaries and other administrative expenses	28	(12,270)	(9,820)
Depreciation and amortization expenses	6,7	(663)	(574)
Impairment charge	15	(591)	(1,278)
Interest expense	24	(1,698)	(1,523)
Cost of medical services provided	29	(4,332)	(3,378)
Other operating expenses		(427)	(650)
Other expenses		**(23,812)**	**(20,679)**
Total claims and expenses		**(48,806)**	**(51,097)**
Income before income tax		**5,684**	**4,979**
Income tax expense	9	(662)	(761)
Net income for the year		**5,022**	**4,218**
Attributable to:			
- shareholders of the Company		4,967	4,155
- minority interest		55	63
		5,022	**4,218**
Earnings per share:			
- basic	30	**0.686**	**0.574**
- diluted	30	**0.686**	**0.574**

The accompanying notes on pages 6 to 48 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

(Thousands of Georgian lari)

	Notes	*2010*	*2009*
Net income for the year		**5,022**	**4,218**
Other comprehensive income			
- Revaluation of property, plant and equipment	7	(429)	–
- Revaluation of available-for-sale financial assets		–	652
- Revaluation of available-for-sale financial assets reclassified to the consolidated income statement		–	(1,351)
Income tax benefit relating to components of other comprehensive income	9	74	105
Other comprehensive loss for the year, net of tax		**(355)**	**(594)**
Total comprehensive income loss for the year		**4,667**	**3,624**
Attributable to:			
- shareholders of the Company		4,800	3,561
- non-controlling interest		(133)	63
		4,667	**3,624**

The accompanying notes on pages 6 to 48 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(Thousands of Georgian lari)

	Attributable to shareholders of the Group						
	Share capital	***Additional paid-in capital***	***Other Reserves***	***Retained earnings***	***Total***	***Minority interest***	***Total equity***
31 December 2008	**7,243**	**10,565**	**1,192**	**(6,649)**	**12,351**	**1,318**	**13,669**
Total comprehensive income (loss)	–	–	(594)	4,155	3,561	63	3,624
31 December 2009	**7,243**	**10,565**	**598**	**(2,494)**	**15,912**	**1,381**	**17,293**
Total comprehensive income (loss)	–	–	(167)	4,967	4,800	(133)	4,667
31 December 2010	**7,243**	**10,565**	**431**	**2,473**	**20,712**	**1,248**	**21,960**

The accompanying notes on pages 6 to 48 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(Thousands of Georgian lari)

	Notes	*2010*	*2009*
Cash flows from operating activities			
Insurance premiums received		61,596	64,348
Reinsurance premiums paid		(12,325)	(15,651)
Insurance benefits and claims paid		(29,056)	(47,785)
Reinsurance claims received		4,411	12,688
Acquisition costs paid		(4,319)	(4,178)
Salaries and benefits paid		(7,613)	(4,774)
Cash paid to other suppliers of goods and services		(6,517)	(4,715)
Interest received		458	335
Income received from medical service rendered		1,745	1,691
Cost of medical services paid		(1,244)	(1,652)
Operating taxes paid		(24)	(413)
Other operating income received		770	2,445
Other operating expenses paid		(427)	(470)
Net cash from operating activities		**7,455**	**1,869**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	5	(435)	–
Purchase of premises and equipment	7	(3,412)	(1,882)
Purchase of intangible assets	6	(39)	(46)
Loans issued		(632)	–
Proceeds from investments		(1,000)	3,680
Dividends received		–	54
Proceeds from sale of premises and equipment		507	320
Net cash (used in) from investing activities		**(5,011)**	**2,126**
Cash flows from financing activities			
Proceeds from borrowings		12,935	9,963
Repayment of borrowings		(11,131)	(6,504)
Interest paid		(1,571)	(1,502)
Net cash from financing activities		**233**	**1,957**
Effect of exchange rates changes on cash and cash equivalents		184	39
Net increase in cash and cash equivalents		**2,861**	**5,991**
Cash and cash equivalents, 1 January	14	**6,815**	**824**
Cash and cash equivalents, 31 December	14	**9,676**	**6,815**

(Thousands of Georgian lari unless otherwise stated)

1. Principal Activities

JSC Insurance Company Aldagi-BCI (the "Company") is the parent company of a Group. The former British-Caucasian Insurance Company was a joint stock company formed on 11 August 1998 based on the decision of Vake District Court of Tbilisi, under the laws of Georgia. On 15 April 2005, it was renamed into Insurance Company BCI, a joint stock company, formed on the basis of Vake-Saburtalo District Court of Tbilisi. On 12 December 2006, Insurance Company BCI acquired 100% of JSC Insurance Company Aldagi. The latter was merged with Insurance Company BCI on 22 June 2007. As a result of the merger JSC Insurance Company Aldagi terminated its activities and Insurance Company BCI was renamed into JSC Insurance Company Aldagi-BCI. The Company possesses two types of insurance licences issued by the insurance bureau and supervisory board for life and non-life insurance products. The Company offers various life and non-life insurance services and insurance products relating to property, liability, personal insurance and others.

The main office of JSC Insurance Company Aldagi-BCI is located in Tbilisi and it has five additional agencies in Tbilisi, Batumi, Poti, Kutaisi and Ozurgeti. The Company's legal address is 34 Griboedovi St., Tbilisi, Georgia.

JSC My Family Clinic is a 100%-owned subsidiary. It was founded by the Company on 3 October 2005 and its legal address is 34 Griboedovi St., Tbilisi, Georgia. JSC St. Nicholas Surgery Clinic is a 55%-owned subsidiary, acquired by the Company on 20 May 2008 and founded on 24 May 2000. Its legal address is 9 Paulo Iashvili St., Kutaisi, Georgia. Both subsidiaries operate in the healthcare industry. LLC Kutaisi Regional Hospital is a 100% owned subsidiary. It was acquired by JSC My Family Clinic on 24 September 2010. Its legal address is 2 Otskheli St. Tbilisi, Georgia.

As of 31 December 2010 and 2009, the Company was 49%-owned by JSC Bank of Georgia ("BoG") and 51%-owned by JSC BG Capital ("BGC"). BGC is 100% owned by the ultimate parent JSC Bank of Georgia.

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group is required to maintain its records and prepare its consolidated financial statements for regulatory purposes in Georgian lari in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale financial assets have been measured at fair value.

These consolidated financial statements are presented in thousands of Georgian lari ("GEL"), except per share amounts and unless otherwise indicated. GEL is the Group's functional currency as the majority of the Group's transactions are denominated, or funded in Georgian lari. Transactions in other currencies are treated as transactions in foreign currencies.

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

Subsidiaries

The Company is a parent of the Group (the Group) which consists of the following enterprises consolidated in the financial statements:

	Ownership/ Voting					
Subsidiary	***2010***	***2009***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
JSC My Family Clinic	100%	100%	Georgia	3 October 2005	Health Service Provider	Not Applicable*
JSC St. Nicholas Surgery Clinic	55%	55%	Georgia	24 May 2000	Health Service Provider	20 May 2008
Kutaisi Regional Clinical Hospital LLC	100%	-	Georgia	24 September 2010	Health Service Provider	24 September 2010

* This subsidiary was incorporated by the Company.

(Thousands of Georgian lari unless otherwise stated)

2. Basis of Preparation (continued)

Presentation of cash flows

The Group classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of benefits and claims incurred for insurance contracts, which are respectively treated under operating activities.

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

Improvements to IFRSs

In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group continues to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Group as the annual impairment test is performed before aggregation.

The following revised standards and interpretations are effective for periods commencing 1 January 2010 but had no impact on the financial
performance or position of the Group:

IAS 24 "Related party disclosures" (Revised)

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRS 9 "Financial Instruments"

In November 2009, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Group is currently evaluating the impact of the adoption of the new Standard and is considering the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Group's consolidated financial statements.

Improvements to IFRSs

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in the May 2010 "Improvements to IFRS" will have an impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on financial statements of the Group.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Group.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Group.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Reclassifications

The following reclassifications were made to the 2009 balances to conform to the 2010 presentation requirements:

	As previously reported	*As reclassified*	*Comment*
Consolidated income statement and balance Sheet			
Depreciation and amortization	–	(663)	Depreciation and amortization expense was previously included in salaries and other administrative expenses
Prepayments for long-term assets	–	2,432	Prepayment for long-term assets was previously presented as other assets
Revenue from medical services rendered	–	1,550	Revenue from medical services rendered previously presented as other operating income.
Cost of medical services provided	–	(1,401)	Cost of medical services provided was previously presented as other operating expense.

Basis of consolidation

Subsidiaries

Basis of consolidation from 1 January 2010

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Losses incurred by the Group were attributed to the non-controlling interests until the balance was reduces to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

Business Combinations and Goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.
Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interests (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation (Continued)

Business Combinations and Goodwill (Continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the consideration transferred over the Group's net fair value of the identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 "Operating Segemnets" before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Product classification

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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

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

Cash and cash equivalents

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables

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

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

Financial assets

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

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Group's strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities (including shareholders' funds), on the same bases, being fair value. The available-for-sale and held-to-maturity categories are used where the relevant liability (including shareholders' funds) are passively managed and/or carried at amortized cost.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

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

Available-for-sale financial assets

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

3. Summary of Significant Accounting Policies (continued)

Determination of fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Offsetting

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

Insurance contract liabilities

Life insurance contract liabilities

The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

General insurance contract liabilities

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

The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant nonlife insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the income statement by setting up a provision for premium deficiency.

Reinsurance assets

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

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

The reinsurers' share of each unexpired risk provision is recognized on the same basis. Reinsurance assets are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Deferred acquisition costs

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

Property and equipment

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

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

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

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

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

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

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

	Years
Buildings	50
Furniture and fixtures	10
Computers and office equipment	5-10
Motor vehicles	5
Medical Equipment	5-10

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

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

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

Construction-in-progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation of these assets, on the same basis as similar property assets, commences when the assets are put into operation.

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Retirement and other employee benefit obligations

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

Pension benefit obligations

The Group provides management and employees of the Group as well as management and employees of the parent of the Group – JSC Bank of Georgia, with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group and JSC Bank of Georgia. The Group collects contributions from its employees as well as employees of JSC Bank of Georgia. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions.

The Group holds the licence to act as a pension fund. Under this licence the Group is authorized to received pension contribution from population of Georgia, with obligation to repay contributions plus earnings

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of each or another financial asset for a fixed number of own equity instruments. These are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated income statement.

Leases

Finance leases - The Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.
The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

Allowances for impairment of financial assets

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

Assets carried at amortized cost

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

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

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

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The current income tax expense is calculated in accordance with the regulations of Georgia and of the cities in which the Group has offices and branches and where its subsidiaries are located.

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

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Intangible assets (continued)

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

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

Provisions and contingent liabilities

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

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

Share-based payment transactions

Cash-settled share-based transactions

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

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital

Share capital

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

Dividends

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Premium income

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

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

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

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

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

Premiums ceded

Premiums payable in respect of reinsurance ceded are recognized in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

Provision for unearned premiums

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

Fee and commission income

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

Realized gains and losses recorded in the consolidated income statement

Realized gains and losses on the sale of property and equipment and of available for sale financial assets are calculated as the difference between net sales proceeds and the original or amortized cost. Realized gains and losses are recognized in the consolidated income statement when the sale transaction occurred.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Benefits and claims

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

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

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBG exchange rates at 31 December 2010 and 2009, were 1.7728 and 1.6858 Georgian lari to 1 US dollar, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian lari at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

4. Significant Accounting Judgments and Estimates

Use of estimates, assumptions and judgments

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

Estimation uncertainty

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

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under life and general insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims.

a) Life insurance contracts

For life insurance contracts there is no claims liability at the reporting date since the only life insurance product is an annual insurance contract, which may be renewed, that will pay out a fixed amount to a beneficiary when the insured person dies within that year.

(Thousands of Georgian lari unless otherwise stated)

4. Significant Accounting Judgments and Estimates (continued)

Estimation uncertainty (continued)

Claims liability arising from insurance contracts (continued)

b) General insurance contracts

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

Allowance for impairment of Insurance Receivables and Reinsurance Assets

The Group regularly reviews its insurance receivables and reinsurance assets to assess impairment. The allowance methodology has been consistently applied in 2010.

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include significant financial difficulty of the customer and/or breach of contract such as default of payment

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

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

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

Impairment of goodwill

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

5. Business Combination

On 1 October 2010, JSC My Family Clinic acquired 100% of Kutaisi Regional Clinical Hospital, LLC, a company providing medical services in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from Kutaisi Regional Clinical Hospital, LLC as of the date of acquisition was:

	Fair value recognized on acquisition	***Carrying value***
Property and equipment	658	481
	658	**481**
Deferred income tax liability	27	–
Trade and other payables	17	17
	44	**17**
Fair value of net assets	**614**	**464**
Negative goodwill arising on acquisition	179	
Consideration paid	**435**	

(Thousands of Georgian lari unless otherwise stated)

6. Goodwill and Other Intangible Assets

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

	Goodwill	*Licences*	*Computer software*	*Total*
Cost				
31 December 2009	**16,065**	**14**	**156**	**16,235**
Additions	–	32	7	**39**
Acquisition through business combinations	–	–	1	**1**
31 December 2010	**16,065**	**46**	**164**	**16,275**
Accumulated amortization and impairment				
31 December 2009	–	**2**	**96**	**98**
Amortization charge	–	16	14	**30**
31 December 2010	–	**18**	**110**	**128**
Net book value:				
31 December 2009	**16,065**	**12**	**60**	**16,137**
31 December 2010	**16,065**	**28**	**54**	**16,147**

	Goodwill	*Licences*	*Computer software*	*Total*
Cost				
31 December 2008	**16,065**	**14**	**110**	**16,189**
Additions	–	–	46	**46**
31 December 2009	**16,065**	**14**	**156**	**16,235**
Accumulated amortization and impairment				
31 December 2008	–	**2**	**53**	**55**
Amortization charge	–	–	43	**43**
31 December 2009	–	**2**	**96**	**98**
Net book value:				
31 December 2008	**16,065**	**12**	**57**	**16,134**
31 December 2009	**16,065**	**12**	**60**	**16,137**

The recoverable amount of the total cash-generating unit has been determined based on a value-in-use calculation, using cash flow projections based on financial budget of 2011 approved by senior management.

As of 31 December 2010, goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Insurance Company Aldagi BCI
- JSC My Family Clinic
- JSC St. Nicholas Surgery Clinic

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget under the assumption that business will not grow and the cash flows will be stable. The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units follows:

	Effective annual growth rate in three-year financial budgets	*WACC applied for impairment*	*Carrying amount of goodwill*	
			31 December 2010	*31 December 2009*
JSC Insurance Company Aldagi – BCI	12.6%	14.81%	15,557	15,557
JSC St. Nicholas Surgery Clinic	15.50%	15.32%	288	288
JSC My Family Clinic	13.63%	14.78%	220	220
Total			**16,065**	**16,065**

(Thousands of Georgian lari unless otherwise stated)

7. Property and Equipment

The movements in property and equipment were as follows:

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under lease*	*Assets under construction*	*Total*
Gross book value								
31 December 2009	**4,490**	**1,350**	**1,004**	**243**	**381**	**749**	**1,080**	**9,297**
Acquisition through business combinations (note 5)	658	–	–	–	–	–	–	**658**
Additions	371	251	321	146	469	188	1,666	**3,412**
Disposals	(241)	(82)	(2)	(144)	(38)	–	–	**(507)**
Revaluation	(429)	–	–	–	–	–	–	**(429)**
31 December 2010	**4,849**	**1,519**	**1,323**	**245**	**812**	**937**	**2,746**	**12,431**
Accumulated depreciation 31 December 2009	**64**	**281**	**395**	**69**	**160**	**175**	**–**	**1,144**
Depreciation charge	78	152	192	29	80	102	–	**633**
Revaluation of depreciation charge	(142)	–	–	–	–	–	–	**(142)**
Disposals	–	(17)	(1)	(53)	–	–	–	**(71)**
31 December 2010	**–**	**416**	**586**	**45**	**240**	**277**	**–**	**1,564**
Net book value								
31 December 2009	**4,426**	**1,069**	**609**	**174**	**221**	**574**	**1,080**	**8,153**
31 December 2010	**4,849**	**1,103**	**737**	**200**	**572**	**660**	**2,746**	**10,867**

	Land and buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under lease*	*Assets under construction*	*Total*
Gross book value								
31 December 2008	**4,339**	**1,275**	**876**	**257**	**286**	**767**	**–**	**7,800**
Additions	211	192	157	121	121	–	1,080	**1,882**
Disposals	(60)	(117)	(29)	(135)	(26)	(18)	–	**(385)**
31 December 2009	**4,490**	**1,350**	**1,004**	**243**	**381**	**749**	**1,080**	**9,297**
Accumulated depreciation								
31 December 2008	**2**	**165**	**264**	**51**	**95**	**90**	**–**	**667**
Depreciation charge	63	128	141	44	66	89	–	**531**
Disposals	(1)	(12)	(10)	(26)	(1)	(4)	–	**(54)**
31 December 2009	**64**	**281**	**395**	**69**	**160**	**175**	**–**	**1,144**
Net book value								
31 December 2008	**4,337**	**1,110**	**612**	**206**	**191**	**677**	–	**7,133**
31 December 2009	**4,426**	**1,069**	**609**	**174**	**221**	**574**	**1,080**	**8,153**

The Group engaged Georgian Valuation Company, an independent appraiser, to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was 31 December 2010. If the buildings were measured using the cost model, the carrying amounts of the buildings as of 31 December 2010 and 2009 would be as follows:

	2010	*2009*
Cost	3,659	3,508
Accumulated depreciation and impairment	(146)	(98)
Net carrying amount	**3,513**	**3,410**

(Thousands of Georgian lari unless otherwise stated)

8. Available-for-sale Financial Assets

Available-for-sale financial assets comprise:

	2010	2009
Unquoted shares	4,363	4,264
Quoted shares	213	167
Available-for-sale financial assets	**4,576**	**4,431**

Unquoted shares as of 31 December 2010 were comprised of ordinary shares of JSC GPC, a pharmaceutical company incorporated and operating in Georgia and 7,000 GDRs of Caucasus Energy & Infrastructure.

9. Taxation

The corporate income tax expenses comprise:

	2010	2009
Current tax charge	336	7
Deferred tax charge – origination and reversal of temporary differences	400	859
Deferred income tax benefit recognized in other comprehensive income	(74)	(105)
Income tax expense	**662**	**761**

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2010 and 2009.

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

	2010	2009
IFRS income before tax	**5,684**	**4,979**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**853**	**747**
Non-taxable income for tax purposes	(213)	–
Tax effect of expenses that are not deductible for tax purposes	22	14
Income tax expense	**662**	**761**

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

(Thousands of Georgian lari unless otherwise stated)

9. Taxation (continued)

	2008	*In the income statement*	*In other compre-hensive income*	*2009*	*In the income statement*	*Acquired through business combination*	*In other compre-hensive income*	*2010*
Tax effect of deductible temporary differences:								
Insurance receivables	25	–	–	25	79	–	–	104
Tax loss carried forward	1,013	(759)	–	254	(254)	–	–	–
Insurance contract liabilities	1,861	(1,267)	–	594	–	–	–	594
Reinsurance assets	117	–	–	117	–	–	–	117
Intangible assets	–	–	–	–	–	–	–	–
Allowances for impairment and provisions for other losses	310	428	–	738	–	–	–	738
Other insurance payables	15	–	–	15	–	–	–	15
Deferred acquisition costs	12	–	–	12	–	–	–	12
Other assets	78	–	–	78	–	–	–	78
Reinsurance premium payables	63	–	–	63	–	–	–	63
Other liabilities	55	48	–	103	(31)	–	–	72
Salaries and other benefits	23	–	–	23	–	–	–	23
Other assets	(3)	22	–	19	–	–	–	19
Deferred tax assets	**3,569**	**(1,528)**	**–**	**2,041**	**(206)**	**–**	**–**	**1,835**
Tax effect of taxable temporary differences:								
Reinsurance assets	1,267	(1,267)	–	–	–	–	–	–
Insurance and reinsurance receivables	–	–	–	–	–	–	–	–
Property and equipment	565	14	–	579	(26)	27	(74)	506
Allowances for impairment and provisions for other losses	–	–	–	–	–	–	–	–
Insurance contract liabilities	210	243	–	453	(72)	–	–	381
Claims payable	–	–	–	–	–	–	–	–
Acquisition costs	–	–	–	–	–	–	–	–
Investments	105	–	(105)	–	–	–	–	–
Intangible assets	658	243		901	218	–	–	1,119
Deferred tax liabilities	**2,805**	**(767)**	**(105)**	**1,933**	**120**	**27**	**(74)**	**2,006**
Net deferred tax assets/(liabilities)	**764**	**(761)**	**105**	**108**	**(326)**	**(27)**	**74**	**(171)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Georgia currently has a number of laws related to various taxes imposed by state governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and a turnover based tax, together with others. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies. Therefore, regulations are often unclear or nonexistent and few precedents have been established. This creates tax risks in Georgia substantially more significant than typically found in countries with more developed tax systems.

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

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

(Thousands of Georgian lari unless otherwise stated)

9. Taxation (continued)

As of 31 December tax assets and liabilities consist of the following:

	2010	*2009*
Current income tax assets	212	500
Deferred income tax assets	11	689
Total tax assets	**223**	**1,189**
Deferred income tax liability	182	581
Total tax liabilities	**182**	**581**

10. Other Assets

Other assets as of 31 December comprise:

	2010	*2009*
Advances and prepayments	1,412	149
Loans issued	625	–
Receivables from regression	516	397
Inventory	282	100
Operating taxes receivable	182	194
Foreclosed assets	178	139
Receivables from related parties	38	22
Receivable from pension fund	22	57
Deferred management share-based compensation	18	67
Other	775	339
	4,048	**1,464**
Less – Allowance for impairment of other assets (Note 15)	(145)	(34)
Other assets	**3,903**	**1,430**

As of 31 December 2010, advances and prepayments for long-term assets of the Group include:

- GEL 1,744 thousand of advances paid for the 1,000 square metre area in construction in progress located at 7 Chavchavadze Avenue, Tbilisi, Georgia. The Group has prepaid 100% of the total amount as of 31 December 2010 (2009: GEL 1,624 thousand). Capitalized on this construction is also GEL 56 thousand paid for design services provided (2009: GEL 56 thousand).
- GEL 764 thousand of advances paid for an insurance software development project. The Group has prepaid 100% of the total amount as of 31 December 2010 (2009: GEL 413 thousand).
- GEL 205 thousand and GEL 134 thousand of advances paid for a non-residential area of 101 square metres being built in the town of Mtskheta. The Group has prepaid 50% of the total amount as of 31 December 2010 (2009: GEL 205 thousand and GEL 134 thousand). The remaining part is disclosed under commitments and contingencies in Note 22.

(Thousands of Georgian lari unless otherwise stated)

11. Insurance and Reinsurance Receivables

Insurance and reinsurance receivables as of 31 December comprise:

	2010	*2009*
Due from policyholders	20,365	20,820
Due from reinsurers	843	3,129
Receivables from reinsurance ceded	41	172
	21,249	**24,121**
Less – allowance for impairment (Note 15)	(1,795)	(3,445)
Total insurance and reinsurance receivables	**19,454**	**20,676**

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

Allowance for impairment includes an allowance of GEL 1,781 (2009: GEL 2,856) for amounts due from policyholders and an allowance of GEL 14 (2009: GEL 589) for amounts due from reinsurers and brokers.

12. Deferred Acquisition Costs

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

	DAC
At 31 December 2008	**419**
Expenses deferred (note 27)	1,245
Amortization (note 27)	(523)
At 31 December 2009	**1,141**
Expenses deferred (note 27)	1,701
Amortization (note 27)	(1,213)
At 31 December 2010	**1,629**

13. Amounts Due from Credit Institutions

Amounts due from credit institutions as of 31 December comprise:

	2010	*2009*
Amounts due from credit institutions		
- JSC Kor Standard Bank	3,669	–
- JSC Bank of Georgia	1,731	2,398
- JSC TBC Bank	835	1,000
- JSC LibertyBank	204	–
- JSC TaoPrivatBank	220	–
- JSC Bank Republic	–	1,000
- JSC ProCredit Bank	–	285
Total amounts due from credit institutions	**6,659**	**4,683**

Amounts due from credit institutions are represented by short (for more than 3 months) and medium-term placements with Georgian banks and earn annual interest of 10% to 16% (2009 – 6.5% to 14%).

(Thousands of Georgian lari unless otherwise stated)

14. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December comprise:

	2010	*2009*
Cash on hand	19	34
Current accounts	5,867	6,781
Short-term deposits (for less than 3 months)	3,790	–
Total cash and cash equivalents	**9,676**	**6,815**

Included in current accounts are amounts placed with the ultimate parent JSC Bank of Georgia of GEL 2,428 (2009: GEL 1,719), JSC Bank Republic of GEL 1,115 (2009: GEL 2,529), JSC TBC Bank of GEL 2,135 (2009: GEL 2,529) and other banks of GEL 189 (2009: nil). Short-term deposits (for less than 3 months) of GEL 3,790 (2009: nil) are placed with JSC ProCredit Bank. Cash and cash equivalents include GEL 1,200 of restricted cash in accordance with regulatory minimal capital requirements.

15. Allowances for Impairment and Provisions

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

	Insurance and reinsurance receivables (note 11)	*Other assets (note 10)*	*Total*
31 December 2008	**2,945**	**288**	**3,233**
Charge	1,212	66	**1,278**
Write-off	(712)	(320)	**(1,032)**
31 December 2009	**3,445**	**34**	**3,479**
Charge	44	547	**591**
Write-off	(1,313)	(436)	**(1,749)**
Recoveries	(381)		**(381)**
31 December 2010	**1,795**	**145**	**1,940**

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

16. Equity

As of 31 December 2010 and 2009, the number of authorized ordinary shares was 7,243,000 with a nominal value per share of one Georgian lari. All authorized shares have been issued and fully paid. There were no movements in the Company's share capital during 2010.

The share capital of the Group was contributed by the shareholders in Georgian lari and they are entitled to dividends and any capital distribution in Georgian lari.

No dividends were declared or paid during 2010 and 2009.

(Thousands of Georgian lari unless otherwise stated)

17. Insurance Contract Liabilities and Reinsurance Assets

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

	2010	*2009*
Insurance contract liabilities		
- Unearned premium provision	24,589	23,684
- Provisions for claims reported by policyholders	6,341	4,597
- Provisions for claims incurred but not reported (IBNR)	1,650	2,023
Total insurance contract liabilities	**32,580**	**30,304**
Reinsurance of liabilities		
- Reinsurers' share in unearned premium provision	3,780	2,261
- Reinsurers' share in provisions for claims reported by policyholders	3,449	2,569
- Reinsurers' share in provisions for claims incurred but not reported (IBNR)	42	90
Total reinsurance assets	**7,271**	**4,920**
Insurance contract liabilities net of reinsurance		
- Unearned premiums provision	20,809	21,423
- Provisions for claims reported by policyholders	2,892	2,028
- Provisions for claims incurred but not reported (IBNR)	1,608	1,933
Total insurance contract liabilities net of reinsurance	**25,309**	**25,384**

Insurance contract liabilities as of 31 December comprise:

		2010			*2009*		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
Life insurance contracts	(a)	702	342	360	722	367	355
General insurance contracts	(b)	31,878	6,929	24,949	29,582	4,553	25,029
Total insurance contract liabilities		**32,580**	**7,271**	**25,309**	**30,304**	**4,920**	**25,384**

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

		2010			*2009*		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
At 1 January		**722**	**367**	**355**	**360**	**200**	**160**
Premiums written during the year	23	2,273	1,321	952	2,865	1,086	1,779
Premiums earned during the year		(2,376)	(1,392)	(984)	(2,488)	(831)	(1,657)
Claims incurred during the current accident year		1,355	1,034	321	815	435	380
Claims paid during the year	26	(1,272)	(988)	(284)	(830)	(523)	(307)
At 31 December		**702**	**342**	**360**	**722**	**367**	**355**

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

		2010			*2009*		
	Notes	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
Provisions for claims reported by policyholders		5,913	3,259	2,654	4,252	2,457	1,795
Provisions for claims incurred but not reported (IBNR)		1,650	74	1,576	2,023	90	1,933
Outstanding claims provision	(1)	**7,563**	**3,333**	**4,230**	**6,275**	**2,547**	**3,728**
Provision for unearned premiums	(2)	24,315	3,596	20,719	23,307	2,006	21,301
Total general insurance contract liabilities		**31,878**	**6,929**	**24,949**	**29,582**	**4,553**	**25,029**

(Thousands of Georgian lari unless otherwise stated)

17. Insurance Contract Liabilities and Reinsurance Assets (continued)

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

		2010			2009		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		**6,275**	**2,547**	**3,728**	**18,794**	**14,087**	**4,707**
Claims incurred during the current accident year		29,719	2,283	27,436	33,086	3,048	30,038
Claims paid during the year	26	(28,431)	(1,497)	(26,934)	(45,605)	(14,588)	(31,017)
At 31 December		**7,563**	**3,333**	**4,230**	**6,275**	**2,547**	**3,728**

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

		2010			2009		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		**23,307**	**2,006**	**21,301**	**25,286**	**7,184**	**18,102**
Premiums written during the year	23	59,673	11,327	48,346	60,232	8,312	51,920
Premiums earned during the year		(58,665)	(9,737)	(48,928)	(62,211)	(13,490)	(48,721)
At 31 December		**24,315**	**3,596**	**20,719**	**23,307**	**2,006**	**21,301**

Insurance contract liabilities and reinsurance assets – terms, assumptions and sensitivities

(a) Life insurance contracts

(1) Terms and conditions

Life insurance contracts offered by the Group only consist of annually renewable term conventional insurance contracts where lump sum benefits are payable on death.

(2) Key assumptions

Premiums for life insurance contracts are based on premiums set by the reinsurance company. These annually renewed insurance contracts only pay a lump sum benefit when the insured person dies within that year. At the reporting date, the pro rata premium for the policy year that is not yet earned, is deferred in the caption Insurance Contract Liabilities.

(b) General insurance contracts

(1) Terms and conditions

The major classes of general insurance written by the Group include cargo, motor, household, property, freight forwarding liability, professional indemnity, financial risk, health and aviation. Risks under these policies usually cover a twelve month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined monthly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

(2) Assumptions

For the calculation of the IBNR reserve including the liability adequacy test we refer to note 3 – Summary of accounting policies, Insurance Contract Liabilities.

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

(Thousands of Georgian lari unless otherwise stated)

17. Insurance Contract Liabilities and Reinsurance Assets (continued)

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

(3) Loss development triangle

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

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

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

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

	2008	*2009*	*2010*
Accident year	39,910	45,263	30,087
One year later	33,285	46,137	–
Two years later	33,268	–	–
Current estimate of cumulative claims incurred	**33,268**	**46,137**	**30,087**

	2008	*2009*	*2010*
Accident year	(29,546)	(38,929)	(24,285)
One year later	(33,102)	(44,114)	–
Two years later	(33,102)	–	–
Cumulative payments to date	**(33,102)**	**(44,114)**	**(24,285)**
Gross outstanding claims provision per the statement of financial position	**166**	**2,023**	**5,802**
Current estimation of surplus/(deficiency)	6,642	(874)	–
% of Surplus/ (deficiency) of initial gross reserve	20%	(2%)	–

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

	2008	*2009*	*2010*
Accident year	28,524	30,418	27,757
One year later	26,969	30,634	–
Two years later	26,969	–	–
Current estimate of cumulative claims incurred	**26,969**	**30,634**	**27,757**

	2008	*2009*	*2010*
Accident year	(25,003)	(26,463)	(23,420)
One year later	(26,963)	(30,477)	–
Two years later	(26,963)	–	–
Cumulative payments to date	**(26,963)**	**(30,477)**	**(23,420)**
Net outstanding claims provision per the statement of financial position	**6**	**157**	**4,337**
Current estimation of surplus/(deficiency)	1,555	(216)	–
% of Surplus/ (deficiency) of initial gross reserve	6%	(1%)	–

(Thousands of Georgian lari unless otherwise stated)

18. Pension Benefit Obligations

Effective 2 June 2005, the Group established a private pension plan. As of 31 December 2010, accumulated contributions made by the Group's employees and other individuals comprised GEL 3,270 (2009 – GEL 2,352). This amount is recorded as an accumulated pension liability to be repaid to the pension plan clients after pension age. Also, any income earned on this accumulated pension liability on behalf of the individuals will be accumulated and added to the pension benefit obligation. When an individual reaches pension age, aggregated contributions, plus any earnings earned on the individual's behalf are returned to the individual according to the schedule agreed with the individual.

Having collected funds from individuals, the Group conducts investment activities on behalf of these individuals in order to receive additional profit on accumulated amounts. The total net accumulated amount of a single member of the pension plan equals the total net contributions made by him/her, plus any net investment income generated by the funds. Investment activities on behalf of pension plan members and the Group are managed by JSC Abbey Asset Management (former JSC Galt & Taggart Asset Management). According to the current arrangement of the plan, the pension age for men and women is 65 and 60 years, respectively.

As of 31 December pension benefit obligations consisted of:

	2010	*2009*
Total net contributions to the pension fund	3,270	2,352
Total net income earned on net pension fund contributions	1,679	1,351
Pension benefit obligations	**4,949**	**3,703**

The movement of pension benefit obligations during 2010 and 2009 was as follows:

	2010	*2009*
Pension fund obligation as of 31 December	**3,703**	**1,642**
Total pension fund instalments during the year	1663	1,325
Administration commission	(25)	(23)
Management commission	(86)	(43)
Investment income commission	(69)	(216)
Membership commission	(4)	(3)
Net income (net of physical persons income tax)	512	1,509
Funds withdrawn	(745)	(488)
Total accumulated pension fund during the year	**1,246**	**2,061**
Pension fund obligation as of 31 December	**4,949**	**3,703**

19. Other Insurance Liabilities

Other insurance liabilities as of 31 December include:

	2010	*2009*
Reinsurance payables	4,430	3,980
Claims payable	2,708	2,005
Other insurance liabilities	**7,138**	**5,985**

20. Financial Liabilities

Financial liabilities as of 31 December comprise:

	2010	*2009*
Bank loans	12,760	10,713
Liabilities under finance lease agreements	206	297
Bank overdraft	172	198
Total financial liabilities	**13,138**	**11,208**

The bank loans have an average interest rate of 15.9% per annum (2009: 17.1%), maturing on average in 155 days (2009: 117 days). All bank loans are obtained from JSC Bank of Georgia.

(Thousands of Georgian lari unless otherwise stated)

21. Other Liabilities

Other liabilities as of 31 December comprise:

	2010	*2009*
Accruals for employee compensation	1,459	1,502
Accounts payable	1,112	895
Operating taxes payable	402	258
Advances received	–	91
Other	438	187
Other liabilities	**3,411**	**2,933**

22. Commitments and Contingencies

Legal

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

Taxation

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

As at 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Financial commitments and contingencies

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

	2010	*2009*
Operating lease commitments:		
- Not later than 1 year	89	1,188
- Later than 1 year but not later than 5 years	961	1,263
Capital commitments	14,290	1,061
Financial commitments and contingencies	**15,340**	**3,512**

(Thousands of Georgian lari unless otherwise stated)

23. Net Insurance Revenue

Net insurance revenue comprises:

	Notes	2010	2009
Premium written on life insurance contracts	17	2,273	2,865
Premium written on general insurance contracts	17	59,673	60,232
Total written premium		**61,946**	**63,097**
Gross change in life provision		103	(377)
Gross change in unearned premium provision		(1,009)	1,979
Total gross earned premiums on insurance contracts		**61,040**	**64,699**
Reinsurers’ share of life insurance contracts premium revenue,	17	(1,321)	(1,086)
Reinsurers’ share of general insurance contracts premium revenue, direct	17	(11,327)	(8,312)
Reinsurers’ share of change in life provision		(71)	255
Reinsurers’ share of change in general insurance contracts unearned premium provision		1,590	(5,178)
Total reinsurers' share of gross earned premiums on insurance contracts		**(11,129)**	**(14,321)**
Net insurance revenue		**49,911**	**50,378**

24. Interest Income and Interest Expense

Interest income and interest expense from financial assets comprises:

	2010	2009
Interest income		
Cash and cash equivalents	206	58
Amounts due from credit institutions	743	250
Interest income	**949**	**308**
Interest expense		
Loans	(1,698)	(1,523)
Interest income less expenses from financial assets	**(749)**	**(1,215)**

25. Other Operating Income

	2010	2009
Other operating income		
Reinsurance commission	198	1,097
Other	966	1,348
Total other operating income	**1,164**	**2,445**

26. Net Insurance Claims Incurred

Net insurance claims incurred comprise:

	Notes	2010	2009
Life insurance claims paid	17	(1,272)	(830)
General insurance claims paid, direct	17	(25,669)	(45,605)
Total insurance claims paid		**(26,941)**	**(46,435)**
Reinsurers’ share of life claims paid	17	988	523
Reinsurers' share of general claims paid	17	1,498	14,588
Gross change in total insurance contract liabilities		(1,370)	12,533
Reinsurers' share of change in total insurance contract liabilities		831	(11,627)
Net insurance claims incurred		**(24,994)**	**(30,418)**

(Thousands of Georgian lari unless otherwise stated)

27. Acquisition Costs, Net of Reinsurance

Acquisition costs, net of reinsurance comprise:

	2010	*2009*
Acquisition costs,	(4,319)	(4,178)
Acquisition costs deferred (note 12)	1,701	1,245
Amortization of deferred acquisition costs (note 12)	(1,213)	(523)
Acquisition costs	**(3,831)**	**(3,456)**

28. Salaries and Other Administrative Expenses

Salaries and benefits, and other operating expenses comprise:

	2010	*2009*
Salaries	(5,503)	(4,221)
Bonuses	(1,843)	(1,385)
Insurance and other benefits	(176)	(118)
Share-based compensation	(48)	(56)
Salaries and benefits	**(7,570)**	**(5,780)**
Occupancy and rent	(1,305)	(1,232)
Marketing and advertising	(997)	(793)
Legal and consultancy	(433)	(334)
Utilities	(284)	(137)
Communications	(257)	(314)
Representative	(200)	(115)
Printing	(179)	(71)
Office supplies	(172)	(233)
Operating taxes	(168)	(203)
Business travel and related	(98)	(93)
Charity	(89)	(32)
Bank fees and commissions	(67)	(71)
Security	(46)	(58)
Personnel training	(41)	(41)
Repair and maintenance of property and equipment	(24)	(63)
Insurance	(1)	(31)
Loss on disposal of property & equipment	–	(11)
Other	(339)	(208)
Total salaries and other administrative expenses	**(12,270)**	**(9,820)**

29. Cost of Medical Services Provided

Cost of medical services provided comprises:

	2010	*2009*
Cost of medical services provided	(1,569)	(1,401)
Cost of medical services provided to individuals insured by the Group	(2,763)	(1,977)
Cost of medical services provided	**(4,332)**	**(3,378)**

30. Basic and Diluted Earnings Per Share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding at the year end.

The basic and diluted earnings per share are the same as there are no dilutive effects on earnings.

	2010	*2009*
Net profit attributable to ordinary shareholder	4,967	4,155
Average number of ordinary shares in issue	7,243	7,243
Basic and diluted earnings per share	**0.686**	**0.574**

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management

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

Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group from events that hinder the sustainable achievement of the Group's performance objectives, including failing to exploit opportunities. The Group recognize the critical importance of having efficient and effective risk management systems in place.

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

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

Capital management objectives, policies and approach

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

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

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

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

Approach to capital management

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

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

The Group has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Insurance risk

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

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements. The Group establishes underwriting guidelines and limits, which stipulate who may accept what risks and the applicable limits. These limits are continuously monitored.

The Group primarily uses the "loss ratio" and "combined ratio" to monitor its insurance risk. The loss ratio is defined as net insurance claims divided by net insurance revenue. The combined ratio is sum of loss ratio and expense ratio. The expense ratio is defined as operating expenses excluding interest expense divided by net insurance revenue. The Group's loss ratios and combined ratios calculated on a net basis were as follows:

	2010	*2009*
Loss ratio	56%	60%
Combined ratio	86%	88%

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

(1) Life insurance contracts

The Group writes life insurance contracts, where the life of the policyholder is insured against death or permanent disability, usually for a pre-determined amount.
The table below sets out the concentration of insured life benefits across 4 bands (Band limits are in thousand GEL).

Claims liabilities per life insured at 31 December 2010	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
GEL 0 – 100 thousand	397,496	124,600	272,896
100 – 200 thousand	750	730	20
200 – 1000 thousand	4,765	4,752	13
Greater than 1,000 thousand	352,635	352,635	–
Total	**755,646**	**482,717**	**272,929**

Claims liabilities per life insured at 31 December 2009	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
0 – 100 thousand	450,057	384,052	66,005
100 – 200 thousand	765	688	77
200 – 1000 thousand	6,431	6,027	404
Greater than 1,000 thousand	334,793	333,781	1,012
Total	**792,046**	**724,548**	**67,498**

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all cost. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Insurance risk (continued)

(1) Life insurance contracts (continued)

Currently, insured risks do not vary significantly in relation to the location of the risk insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis. For contracts where death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. A Group wide reinsurance limit of GEL 5,000 on all high risk individuals insured is in place.

The geographical concentration of the Group's insurance liabilities at 31 December 2010 and 2009 is as follows. The disclosure is based on the countries where the insurance business is written. Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia.

Claims liabilities per life insured at 31 December 2010	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
Georgia	755,646	482,717	272,929
Total	**755,646**	**482,717**	**272,929**

Claims liabilities per life insured at 31 December 2009	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
Georgia	792,046	724,548	67,498
Total	**792,046**	**724,548**	**67,498**

(2) General insurance contracts

The Group principally issues the following types of general insurance contracts: : motor own damage, property, financial risks, health, guarantees, cargo, freight forwarding liability, general third party liability, motor third party liability, professional indemnity, marine hull, aviation hull, performance bond. Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from climate changes and natural disasters. For healthcare contracts the most significant risks arise from lifestyle changes, epidemic and medical science.

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

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and prompt pursuit of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Insurance risk (continued)

(2) General insurance contracts (continued)

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

	2010			2009		
	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Cargo	136	–	136	30	30	–
Motor	764	96	668	690	87	603
Property	1,334	1,254	80	534	381	153
Liability	1,757	1,718	39	1,901	1,744	157
Healthcare	3,265	63	3,202	2,903	142	2,761
Travel	56	7	49	24	9	15
Life	428	157	271	345	112	233
Personal accident	251	196	55	190	154	36
Transport	–	–	–	3	–	3
	7,991	**3,491**	**4,500**	**6,620**	**2,659**	**3,961**

For general insurance contracts, the most significant risks arise from changes in loss frequency and loss severity in motor insurance and increases in prices of medical services. These risks vary significantly in relation to the location of the risk insured by the Group, and the type of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies. The Group establishes underwriting guidelines and limits that stipulate who may accept risks, their nature and applicable limits. These limits are continuously monitored. Strict claim review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims are in place. The Group also enforces a policy of actively managing and promptly processing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

Business ceded is placed on different terms (quota share, excess of loss) with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

The geographical concentration of the Group's insurance liabilities at 31 December 2010 and 2009 is as follows. The disclosure is based on the countries where the insurance business is written. Direct insurance business written is taken in Georgia only and the reinsurance companies are all based outside Georgia.

	2010			2009		
	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities	Gross claims liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Georgia	7,991	3,491	4,500	6,620	2,659	3,961
Total	**7,991**	**3,491**	**4,500**	**6,620**	**2,659**	**3,961**

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Financial risk

(1) Credit risk

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

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

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

Reinsurance

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any reinsurance contract. There is no single counterparty exposure that exceeds 34% of total reinsurance assets at the reporting date. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risks arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvencies.

Investment securities

The Group limits its exposure by setting maximum limits of portfolio securities with a single or group of issuers. The Group also only makes use of institutions with high creditworthiness.

Loans and receivables

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

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before impairment allowances and the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Gross maximum exposure 2010*	*Gross maximum exposure 2009*
Cash and cash equivalents (excluding cash on hand)	14	9,657	6,781
Amounts due from credit institutions	13	6,659	4,683
Insurance and reinsurance receivables	11	19,454	20,676
Reinsurance assets	17	7,271	4,920
		43,041	**37,060**
Financial commitments and contingencies	22	15,340	3,512
Total credit risk exposure		**27,701**	**33,548**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Financial risk (continued)

(1) Credit risk (continued)

Credit quality per class of financial assets

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

	Notes	*Neither past due nor impaired 2010*	*Past-due but not impaired 2010*	*Total 2010*
Amounts due from credit institutions	13	6,659	–	**6,659**
Available-for-sale financial assets	8	4,576	–	**4,576**
Insurance and reinsurance receivables	11			
- Insurance receivables		17,336	1,248	**18,584**
- Reinsurance receivables		870	–	**870**
Total		**29,441**	**1,248**	**30,689**

	Notes	*Neither past due nor impaired 2009*	*Past–due but not impaired 2009*	*Total 2009*
Amounts due from credit institutions	13	4,683	–	**4,683**
Available-for-sale financial assets	8	4,431	–	**4,431**
Insurance and reinsurance receivables	11			
- Insurance receivables		16,430	1,534	**17,964**
- Reinsurance receivables		1,439	1,273	**2,712**
Total		**26,983**	**2,807**	**29,790**

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

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Financial risk (continued)

(2) Liquidity risk

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

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

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

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

31 December 2010	***Up to a year***	***1–3 years***	***3-5 years***	***Over 5years***	***Total***
Assets:					
Other assets	3,139	764	–	–	**3,903**
Deferred income tax asset	11	–	–	–	**11**
Current income tax asset	212	–	–	–	**212**
Reinsurance assets	7,271	–	–	–	**7,271**
Available-for-sale financial assets	4,576	–	–	–	**4,576**
Insurance and reinsurance receivables	19,454	–	–	–	**19,454**
Amounts due from credit institutions	983	5,676	–	–	**6,659**
Cash and cash equivalents	9,676	–	–	–	**9,676**
Total assets	**45,322**	**6,440**	–	–	**51,762**
Liabilities:					
Other liabilities	3,411	–	–	–	**3,411**
Pension benefit obligation	–	–	–	4,949	**4,949**
Deferred income tax liability	182	–	–	–	**182**
Financial liabilities	11,654	287	1,197	–	**13,138**
Other insurance liabilities	7,138	–	–	–	**7,138**
Insurance contract liabilities	31,382	1,026	172	–	**32,580**
Total liabilities	**53,767**	**1,313**	**1,369**	**4,949**	**61,398**
Net position	**(8,445)**	**5,127**	**(1,369)**	**(4,949)**	**(9,636)**
Accumulated gap	**(8,445)**	**(3,318)**	**(4,687)**	**(9,636)**	

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Financial risk (continued)

(2) Liquidity risk (continued)

31 December 2009	*Up to a year*	*1–3 years*	*3-5 years*	*Over 5years*	*Total*
Assets:					
Other assets	3,431	431	–	–	**3,862**
Deferred income tax asset	689	–	–	–	**689**
Current income tax asset	500	–	–	–	**500**
Reinsurance assets	4,920	–	–	–	**4,920**
Available-for-sale financial assets	4,431	–	–	–	**4,431**
Insurance and reinsurance receivables	20,169	507	–	–	**20,676**
Amounts due from credit institutions	4,430	253	–	–	**4,683**
Cash and cash equivalents	6,815	–	–	–	**6,815**
Total assets	**45,385**	**1,191**	**–**	**–**	**46,576**
Liabilities:					
Other liabilities	2,915	18	–	–	**2,933**
Pension benefit obligation	–	–	–	3,703	**3,703**
Deferred income tax liability	581	–	–	–	**581**
Financial liabilities	10,742	95	371	–	**11,208**
Other insurance liabilities	5,985	–	–	–	**5,985**
Insurance contract liabilities	29,934	355	15	–	**30,304**
Total liabilities	**50,157**	**468**	**386**	**3,703**	**54,714**
Net position	**(4,772)**	**723**	**(386)**	**(3,703)**	**(8,138)**
Accumulated gap	**(4,772)**	**(4,049)**	**(4,435)**	**(8,138)**	

The amounts and maturities in respect of insurance liabilities are based on management's best estimate based on statistical techniques and past experience.

In management's opinion, liquidity is sufficient to meet the Group's present requirements.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Financial liabilities	5,481	7,357	1,732	–	14,570
Total undiscounted financial liabilities	**5,481**	**7,357**	**1,732**	**–**	**14,570**

Financial liabilities As at 31 December 2009	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Debt securities issued and other liabilities	4,924	6,494	664	–	12,082
Total undiscounted financial liabilities	**4,924**	**6,494**	**664**	**–**	**12,082**

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Geographical concentration

The geographical concentration of the Group's assets and liabilities at 31 December 2010 and 2009 is as follows. The disclosure is based on the countries where the insurance business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

	2010				*2009*			
	Georgia	*OECD countries*	*Non-OECD countries*	*Total*	*Georgia*	*OECD countries*	*Non-OECD countries*	*Total*
Assets:								
Cash and cash equivalents	9,676	–	–	9,676	6,815	–	–	**6,815**
Amounts due from credit institutions	6,587	72	–	6,659	4,683	–	–	**4,683**
Insurance and reinsurance receivables	18,600	336	518	19,454	18,072	404	2,200	**20,676**
Available-for-sale financial assets	4,536	30	10	4,576	4,274	157	–	**4,431**
Reinsurance assets	357	5,291	1,623	7,271	552	4,220	148	**4,920**
Income tax assets	212	–	–	212	500	–	–	**500**
Deferred tax assets	11	–	–	11	689	–	–	**689**
Deferred acquisition costs	1,629	–	–	1,629	1,141	–	–	**1,141**
Other assets	3,903	–	–	3,903	3,862	–	–	**3,862**
Total assets	**45,511**	**5,729**	**2,151**	**53,391**	**40,588**	**4,781**	**2,348**	**47,717**
Liabilities:								
Insurance contract liabilities	32,580	–	–	32,580	30,304	–	–	**30,304**
Other insurance liabilities	2,844	2,902	1,392	7,138	2,977	2,739	269	**5,985**
Financial liabilities	13,138	–	–	13,138	11,208	–	–	**11,208**
Deferred income tax liability	182	–	–	182	581	–	–	**581**
Pension benefit obligation	4,949	–	–	4,949	3,703	–	–	**3,703**
Other liabilities	3,411	–	–	3,411	2,933	–	–	**2,933**
Total liabilities	**57,104**	**2,902**	**1,392**	**61,398**	**51,706**	**2,739**	**269**	**54,714**
Net position	**(11,593)**	**2,827**	**759**	**(8,007)**	**(11,118)**	**2,042**	**2,079**	**(6,997)**

Market risk

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

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

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

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments.

The Company does not have floating interest rate instruments thus is not exposed to cash flow interest risk, interest rate fluctuations also does not affect the Company's equity.

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

	2010		*2009*	
	GEL	***USD***	***GEL***	***USD***
Amounts due from credit institutions	12.5%	10.7%	n/a	9.0%
Borrowings	16.1%	13.5%	17.1%	17.9%

Currency risk

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

The Group's financial assets are primarily denominated in the same currencies as its insurance and investment liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance and investment liabilities are expected to be settled.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2010 and 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian lari, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2010			
	GEL	***USD***	***EUR***	***Total***
Assets:				
Cash and cash equivalents	7,218	2,066	392	9,676
Amounts due from credit institutions	3,188	3,471	–	6,659
Insurance and reinsurance receivables	13,585	5,496	373	19,454
Reinsurance assets	313	6,810	148	7,271
Total assets	**24,304**	**17,843**	**913**	**43,060**
Liabilities:				
Insurance contract liabilities	15,824	16,265	491	32,580
Other insurance liabilities	2,218	4,399	521	7,138
Financial liabilities	11,761	1,377	–	13,138
Other liabilities	3,411	–	–	3,411
Total liabilities	**33,214**	**22,041**	**1,012**	**56,267**
Net position	**(8,910)**	**(4,198)**	**(99)**	**(13,207)**
Increase in currency rate in %		**1.3%**	**12.7%**	
Effect on profit		**(55)**	**(13)**	
Increase in currency rate in %		**(1.3%)**	**(12.7%)**	
Effect on profit		**55**	**13**	

(Thousands of Georgian lari unless otherwise stated)

31. Risk Management (continued)

Market risk (continued)

	2009			
	GEL	***USD***	***EUR***	***Total***
Assets:				
Cash and cash equivalents	1,446	5,363	6	6,815
Amounts due from credit institutions	2,000	2,318	365	4,683
Insurance and reinsurance receivables	13,596	6,706	374	20,676
Reinsurance assets	536	4,266	118	4,920
Total assets	**17,578**	**18,653**	**863**	**37,094**
Liabilities:				
Insurance contract liabilities	15,365	14,499	440	30,304
Other insurance liabilities	2,687	2,920	377	5,984
Financial liabilities	10,911	297	–	11,208
Other liabilities	2,933	–	–	2,933
Total liabilities	**31,896**	**17,716**	**817**	**50,429**
Net position	**(14,318)**	**937**	**46**	**(13,335)**
Increase in currency rate in %		**1.30%**	**12.70%**	
Effect on profit		**12**	**6**	
Decrease in currency rate in %		**(1.30%)**	**(12.70%)**	
Effect on profit		**(12)**	**(6)**	

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

Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit linked business. The Group did not have such financial assets or liabilities as of 31 December 2010 and 2009.

32. Fair Values of Financial Instruments

Financial instruments recorded at fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

(Thousands of Georgian lari unless otherwise stated)

32. Fair Values of Financial Instruments (continued)

Financial instruments recorded at fair value (continued)

	2010			
	Level 1	***Level 2***	***Level 3***	***Total 2010***
Financial assets				
Available-for-sale financial assets	213	98	4,265	4,576
	213	**98**	**4,265**	**4,576**

	2009			
	Level 1	***Level 2***	***Level 3***	***Total 2009***
Financial assets				
Available-for-sale financial assets	166	–	4,265	**4,431**
	166	–	**4,265**	**4,431**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2010	
	Carrying amount	***Effect of reasonably possible alternative assumptions***
Financial assets		
Investment securities – available-for-sale	4,265	+/- 583

	31 December 2009	
	Carrying amount	***Effect of reasonably possible alternative assumptions***
Financial assets		
Investment securities – available-for-sale	4,265	+/- 642

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable model inputs as follows:

For equities, the Group adjusted the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiple by increasing and decreasing the assumed multiple ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the EBITDA multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian lari unless otherwise stated)

33. Related Party Transactions

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2010		*2009*	
	Parent	***Entities under common control***	***Parent***	***Entities under common control***
Cash and cash equivalents	2,349	79	1,719	–
Amounts due from credit institutions	1,688	–	2,398	–
Insurance and reinsurance receivables	196	33	274	56
Other assets	–	–	–	4
	4,233	**112**	**4,391**	**60**
Liabilities				
Financial liabilities	12,678	206	10,911	297
Other insurance liabilities	–	–	12	–
Other liabilities	55	–	44	–
	12,733	**206**	**10,967**	**297**
Income and expenses				
Insurance premium	2,962	36	3,098	99
Interest income on current and deposit accounts in banks	257	–	271	–
Interest expense on borrowings	(1,655)	–	(1,359)	88
	1,564	**36**	**2,010**	**187**

Compensation of key management personnel (2010: 15 persons; 2009: 13 persons) comprised the following:

	2010	*2009*
Salaries and bonuses	2,167	1,405
Share-based payments compensation	48	60
Total key management compensation	**2,215**	**1,465**