JSC Insurance Company Aldagi Group
Consolidated Financial Statements

Year ended 31 December 2013
Together with Independent Auditors' Report

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Independent Auditor's report

To the shareholders and Board of Directors of JSC Insurance Company Aldagi -

We have audited the accompanying consolidated financial statements of JSC Insurance Company Aldagi and its subsidiaries (collectively "JSC Insurance Company Aldagi Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated 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.

Auditor's responsibility

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our 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 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 of the audited entity, 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 and its subsidiaries as at 31 December 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

25 April 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2013

(Thousands of Georgian lari)

	Notes	2013	2012
Assets			
Cash and cash equivalents	14	9,025	10,721
Amounts due from credit institutions	13	13,252	20,467
Insurance and reinsurance receivables	11	61,638	63,781
Loan Issued	10	8,020	7,544
Available-for-sale investments		–	326
Derivative financial assets	19	982	–
Reinsurance assets	18	9,471	7,869
Current income tax assets		939	91
Deferred income tax assets	8	555	1,167
Deferred acquisition costs	12	987	1,855
Property and equipment	7	180,528	149,725
Investment property		1,139	–
Prepayments for long-term assets	9	164	10,079
Goodwill and other intangible assets	6	21,800	17,896
Pension Fund Assets	17	9,540	8,758
Other assets	9	26,455	24,016
Total assets		**344,495**	**324,295**
Equity			
Share capital	16	15,286	15,286
Additional paid-in capital		36,223	35,022
Other reserves		512	431
Retained earnings		41,595	21,677
Total equity attributable to shareholders of the Group		**93,616**	**72,416**
Non-controlling interests		24,623	17,824
Total equity		**118,239**	**90,240**
Liabilities			
Insurance contract liabilities	18	73,928	80,438
Other insurance liabilities	20	7,907	13,603
Current income tax liabilities		1,411	837
Deferred income tax liabilities	8	2,100	2,897
Borrowings	21	110,973	105,814
Trade Payables	22	8,011	9,532
Pension Fund Liability	17	9,540	8,758
Other liabilities	23	12,386	12,176
Total liabilities		**226,256**	**234,055**
Total equity and liabilities		**344,495**	**324,295**

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

Murtaz Kikoria General Director

Irakli Gogia Deputy General Director

Lasha Khakhutaishvili Chief Financial Officer

25 April 2014

The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

(Thousands of Georgian lari)

	Notes	*2013*	*2012*
Gross earned premiums on insurance contracts		150,467	109,812
Reinsurers' share of gross earned premiums on insurance contracts		(13,475)	(11,871)
Net insurance revenue	25	136,992	97,941
Realized gain from available-for-sale financial assets		–	(92)
Interest Income	26	2,371	3,861
Medical services rendered	32	61,486	49,449
Other operating income	27	2,704	4,670
Other revenue		66,561	57,888
Total revenue		203,553	155,829
Gross insurance benefits and claims paid		(87,824)	(59,146)
Reinsurers' share of gross insurance benefits and claims paid		1,439	1,366
Gross change in insurance contracts liabilities		2,961	1,124
Reinsurers' share of gross change in insurance contracts liabilities		(888)	716
Net insurance claims	28	(84,312)	(55,940)
Acquisition costs, net of reinsurance	29	(4,686)	(5,538)
Salaries and other employee benefits	30	(19,649)	(17,271)
General and administrative expenses	31	(8,834)	(8,310)
Depreciation and amortization expenses		(1,297)	(818)
Impairment charge	15	(2,211)	(3,929)
Interest Expense	26	(12,229)	(8,825)
Cost of medical services provided	33	(37,979)	(33,122)
Foreign exchange and translation loses		(3,618)	(703)
Other operating expenses		(629)	(2,569)
Other expenses		(91,132)	(81,085)
Total claims and expenses		(175,444)	(137,025)
Income/(Loss) before tax		28,109	18,804
Income tax expense/(benefit)	8	(4,239)	(2,524)
Net Income/(Loss) for the year from continuing operations		23,870	16,280
Attributable to:			
- shareholders of the Company		19,918	13,090
- non-controlling interests		3,952	3,190
		23,870	16,280

The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

(Thousands of Georgian lari)

	Notes	*2013*	*2012*
Net income for the year		23,870	16,280
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
- Revaluation of available-for-sale investments		–	–
- Revaluation of available-for-sale investments reclassified to the consolidated income statement		–	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		–	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
- Revaluation of property, plant and equipment	7	95	–
- Income tax benefit relating to components of other comprehensive income		(14)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		81	–
Other comprehensive income for the year, net of tax		81	–
Total comprehensive income for the year		23,951	16,280
Attributable to:			
- shareholders of the Company		19,999	13,090
- non-controlling interests		3,952	3,190
		23,951	16,280

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

(Thousands of Georgian lari)

	Attributable to shareholders of the Group						
	Share Capital	*Additional paid-in capital*	*Other reserves*	*Retained Earnings*	*Total*	*Non-controlling interests*	*Total Equity*
31 December 2011	7,243	10,565	431	8,587	26,826	14,634	41,460
Total comprehensive income (loss)	–	–	–	13,090	13,090	3,190	16,280
Issue of share capital (Note 16)	8,043	24,457	–	–	32,500	–	32,500
31 December 2012	15,286	35,022	431	21,677	72,416	17,824	90,240
Total comprehensive income (loss)	–	–	81	19,918	19,999	3,952	23,951
Contribution to capital in existing subsidiaries by non-controlling shareholders	–	–	–	–	–	2,847	2,847
Share based transactions (Note 16)	–	1,201	–	–	1,201	–	1,201
31 December 2013	15,286	36,223	512	41,595	93,616	24,623	118,239

The accompanying notes on pages 6 to 58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

(Thousands of Georgian lari)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Insurance premium received		137,063	103,817
Reinsurance premium paid		(8,256)	(9,343)
Insurance benefits and claims paid		(87,775)	(58,020)
Reinsurance claims received		601	733
Acquisition costs paid		(5,259)	(4,587)
Salaries and benefits paid		(21,920)	(15,054)
Cash paid to other suppliers of goods and services		(4,810)	(28,963)
Interest received		2,634	3,274
Income received from medical service rendered		52,407	44,250
Cost of medical services paid		(31,926)	(26,398)
Operating taxes paid		(1,610)	(1,004)
Other operating income received		140	2,054
Other operating expenses paid		(6,912)	(818)
Net cash flows from operating activities before income tax		24,377	9,941
Income tax paid		(3,868)	(767)
Net cash flows from operating activities		20,509	9,174
Cash flows from (used in) investing activities			
Acquisition of subsidiary, net of cash acquired (note 5)		(7,356)	(13,546)
Purchase of premises and equipment		(10,635)	(54,272)
Purchase of intangible assets		(188)	(701)
Loan Issued		–	(8,192)
Proceeds from Investments		9,200	794
Proceeds from sale of / (purchase of) investments		8	–
Proceeds from sale of premises and equipment		1,269	2,891
Net cash flows from used in investing activities		(7,702)	(73,026)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	32,500
Proceeds from borrowings		17,792	55,641
Repayment of borrowings		(22,836)	(10,697)
Interest paid		(9,847)	(7,728)
Acquisition of additional interest by minority		1,280	–
Net cash flows from financing activities		(13,611)	69,716
Effect of exchange rates changes on cash and cash equivalents		(893)	(43)
Net increase/(decrease) in cash and cash equivalents		(1,697)	5,821
Cash and cash equivalents, 1 January	14	10,722	4,900
Cash and cash equivalents, 31 December	14	9,025	10,721

(Thousands of Georgian lari unless otherwise stated)

1. Principal Activities

JSC Insurance Company Aldagi (the "Company") was established on 11 August 1998 under the laws of Georgia. Prior to July 2013 its legal name was JSC Incurance Company Aldagi BCI.

The Company possesses two types of insurance licences issued by the Insurance Bureau and Supervisory Board of Georgia 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 the Company is located in Tbilisi and it has five additional service centers in Tbilisi, Batumi, Poti, Kutaisi and Ozurgeti. The Company's legal address is 3, Pushkin street, 0105 Tbilisi, Georgia.

The Company is the parent of group of companies ("the Group") incorporated in Georgia. Primarily business activities of the Group include providing healthcare services to corporate and individual customers. The list of companies included in the Group is provided in Note 2.

As at 31 December 2013 and 2012, the Group has the following shareholders:

Shareholder	*31 December 2013*	*31 December 2012*
JSC Bank of Georgia	76%	76%
JSC BG Capital	24%	24%
Total	100.00%	100.00%

As at 31 December 2013 and 2012 the Group's ultimate parent is Bank of Georgia Holdings plc.

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.

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.

(Thousands of Georgian lari unless otherwise stated)

2. Basis of Preparation (continued)

Subsidiaries

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

Subsidiary	Ownership/ Voting 2013	Ownership/ Voting 2012	Date of incorporation	Industry	Date of acquisition
JSC My Family Clinic	51%	51%	3 October 2005	Health Service Provider	Not Applicable
JSC St. Nicholas Surgery Clinic	72%	72%	10 November 2000	Health Service Provider	20 May 2008
Imereti Regional Clinical Hospital LLC	100%	100%	19 July 2010	Health Service Provider	24 September 2010
Biznes Centri Kazbegze, LLC	100%	100%	22 June 2010	Various	24 August 2011
JSC Zugdidi multi profile Clinical Hospital "Republic"	100%	100%	19 October 1999	Health Service Provider	29 November 2011
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	66.7%	66.7%	5 May 2003	Health Service Provider	29 November 2011
JSC Chkhorotskhu Regional Central Hospital	100%	100%	30 November 1999	Health Service Provider	29 November 2011
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LTD	66.7%	66.7%	15 October 2004	Health Service Provider	29 November 2011
E.K. Pipia Central Hospital of Tsalenjikha, LTD	100%	100%	1 September 1999	Health Service Provider	29 November 2011
Martvili Multi profile Hospital, LTD	100%	100%	17 March 2000	Health Service Provider	29 November 2011
Abasha Outpatient-Polyclinic Union, LTD	100%	100%	16 March 2000	Health Service Provider	29 November 2011
Tskaltubo Regional Hospital, LTD	66.7%	66.7%	29 September 1999	Health Service Provider	29 November 2011
Khobi Central Regional Hospital, LTD	100%	100%	13 July 2000	Health Service Provider	29 November 2011
Imedi L Dent, LLC *	–	100%	17 January 2005	Health Service Provider	30 April 2012
Aliance, LLC	100%	100%	01 March 2000	Health Service Provider	30 April 2012
Green Way, LLC	100%	100%	27 December 2010	Various	30 April 2012
Centromed, LLC	100%	100%	09 July 2010	Various	30 April 2012
Unimed Achara, LLC	100%	100%	29 June 2010	Health Service Provider	30 April 2012
Unimedi Samtskhe, LLC	100%	100%	29 June 2010	Health Service Provider	30 April 2012
Unimedi Kakheti, LLC	100%	100%	29 June 2010	Health Service Provider	30 April 2012
Caraps Medline, LLC	100%	–	26 August 1998	Health Service Provider	26 December 2013
Medline+, LLC	100%	–	13 December 2007	Health Service Provider	30 December 2013
Kutaisi Training Centre, NPO	100%	–	20 December 2013	Providing professional development Courses for medical and non-medical personnel	20 December 2013

* This subsidiary was disposed of in 2013 year

Presentation of financial statements

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.

Prior year financial statements have been reclassified to disclose cost of medical services provided and other operating income in order to insure comparability to the current year presentation. Refer to Note 3.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies

Adoption of new or revised standards and interpretations

The Group has adopted the following amended IFRS during the year:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendments had no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not offset financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the Group's financial position or performance.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the Group's financial position or performance, as it has no joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. IFRS 12 had no impact on the Group's financial position or performance, as it has no subsidiaries with material non-controlling interests or unconsolidated structured entities.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures affected the consolidated financial statements for the period.

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:

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. Mandatory effective date will not be before 2017, and has been tentatively decided as 2018. Classification of the Group's financial assets and liabilities may be changed as a result of the implementation. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective (continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are not expected to be relevant to the Group.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments will not have an impact on the Group, since the Group does not apply hedge accounting.

Reclassifications

Reclassification due to management decisions were made as management believes that such presentation reflects more reliably and transparently the economic substance of transactions compared to previous presentation and is more consistent with best practice. The following reclassifications were made to 2012 income statement:

	As previously reported 2012	*Reclassification*	*As reclassified 2012*	*Comment*
Cost of medical services provided	(29,319)	(3,803)	(33,122)	According to the new accounting treatment depreciation and utility expenses are included in cost of medical services provided
General and administrative expenses	(8,807)	497	(8,310)	Utility expenses were previously included in general and administrative expenses
Depreciation and amortization expenses	(4,124)	3,306	(818)	Depreciation expenses of healthcare clinics and medical equipment were previously included in depreciation and amortization expenses together with administrative buildings
Other operating income	2,874	1,796	4,670	Part of other operating income was previously included in interest income, Factoring income was previously included in other operating expenses
Other operating expenses	(1,141)	(1,428)	(2,569)	Factoring income was previously included in other operating expenses
Interest Income	4,229	(368)	3,861	Part of other operating income was previously included in interest income

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair values. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

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

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

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

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.

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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Insurance and reinsurance receivables (continued)

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.

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 the terms of the contract and the insurance period as well as the prudent estimation of incurred losses in the claims reported at the reporting date.

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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Insurance contract liabilities (continued)

General insurance contract liabilities (continued)

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

Reinsurance assets

The Group cedes insurance risk in the normal course of business for all of its businesses except for health insurance. 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.

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.

Derivative financial instruments

As part of its risk management, the Group uses foreign exchange option contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement.

Fair value measurement

The Group measures financial instruments, such as available-for-sale securities, derivatives and certain non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 35.

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Property and equipment

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

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

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

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

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

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

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

	Years
Office buildings	50-100
Hospitals and Clinics	50-100
Furniture and fixtures	5-10
Computers and medical equipment	5-10
Motor vehicles	5

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

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

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

Investment properties

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

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

Inventory supplies

Inventory supplies are valued at the lower of cost and net realizable value. Cost of inventory supplies is determined on a weighted average basis and includes expenditure incurred in acquiring inventory supplies and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. No provisions for obsolete or slow moving inventory supplies are made.

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 Fund Assets and Liabilities

The Group provides management and employees of the Group, management and employees of the parent of the Group – JSC Bank of Georgia, as well as the Group non-related broad client base with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group and JSC Bank of Georgia. The Group collects contributions from its employees as well as employees of JSC Bank of Georgia and other clients. When a client reaches the pension age, aggregated contributions, plus any income earned on the employee's behalf are paid to the employee according to the schedule agreed with the client. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. In case of leaving the occupied position, the client is entitled to accumulated contributions in form of a lump sum.
The Group holds the licence to act as a pension fund. Under this licence the Group is authorized to receive pension contribution from the population of Georgia, with obligation to repay contributions plus earnings.

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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Borrowing Costs

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

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.

Assets carried at amortized cost

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

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

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

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Taxation

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

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

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

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

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

Intangible assets

Intangible assets include computer software and licenses.

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

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Intangible assets (continued)

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

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

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

Provisions and contingent liabilities

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

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

Share-based payment transactions

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

Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted.

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

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.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Share capital (continued)

Dividends

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

Income and expense recognition

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.

Revenue from medical services rendered

Revenues from medical services are recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured on an accrual basis.

(Thousands of Georgian lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Cost of Medical Services Rendered

Cost of medical services rendered represents expenses directly related to the generation of revenue from medical services rendered, including, but not limited to wages and salaries of medical personnel, cost of medicines and other inventory.

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 2013 and 2012, were 1.7363 and 1.6567 Georgian lari to 1 US dollar, respectively.

(Thousands of Georgian lari unless otherwise stated)

4. Significant Accounting Judgments, Estimates and Assumptions

Use of estimates, assumptions and judgments

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

Estimation uncertainty

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

Claims liability arising from insurance contracts

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

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. 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.

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.

(Thousands of Georgian lari unless otherwise stated)

5. Business Combination

Acquisitions in 2013

Caraps Medline LLC

On 31 December 2013 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of JSC Insurance Company Aldagi, fully acquired from several individuals Caraps Medline LLC ("Acquiree"), a healthcare company operating in Georgia. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree as at the date of acquisition were:

	Fair value Recognized on Acquisition
Assets	
Amounts due from credit institutions	46
Loan to customers[1]	2,664
Accounts receivable[1]	22
Property and equipment	6,005
Goodwill and other intangible assets	4
Current income tax assets	71
Prepayments	87
Other assets	134
Total assets	9,033
Liabilities	
Current income tax liabilities	93
Borrowings	2,883
Trade Payables	376
Other liabilities	424
Total Liabilities	3,776
Fair value of assets	5,257
Minority interest	-
Goodwill arising on acquisition	3,063
Total Consideration[2]	8,320
Cash paid*	7,810
Cash acquired with the subsidiary	–
Net cash outflow	7,810

*As of 31 December 2013 GEL 454 was outstanding and was fully paid after the reporting date.

The Group decided to increase their presence and investment in Tbilisi healthcare market, by acquiring the given clinic, thus securing a leading position in the growing healthcare sector. Management considers that the deal will have positive impact on the value of the Group. Caraps Medline owns 100% stake in Medline + LLC.

As the acquisition date is 31 December 2013, no revenue or profit comes from the Acquiree in the year ended 31 December 2013. If the combination had taken place at the beginning of the period the Group would have recorded GEL 211,410 and GEL 22,934 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy which is expected to be brought into the Group's operations. None of the goodwill recognised is expected to be deductible for tax purposes.

(Thousands of Georgian lari unless otherwise stated)

5. Business Combination (continued)

Acquisitions in 2013 (continued)

Since Caraps Medline LLC was acquired at the reporting date, the Group had limited time to review, analyze and perform valuation of the respective net assets as well as amount of goodwill. Therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the reporting date. The Group continues thorough full examination of these net assets and if identified proper adjustments will be made to the net assets and amount of the goodwill during the twelve month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3). However, as at the reporting date management believes that materially all factors of the business combination have been captured and the estimates are materially correct.

1. No impairment for loans and receivables, gross amounts equal fair values and are expected to be fully collected;
2. Consideration comprised of GEL 510 pre-existing loan to Caraps Medline LLC and cash payments of GEL 7,810.

6. Goodwill and Other Intangible Assets

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

	Goodwill	*Licenses*	*Computer software*	*Total*
Cost				
31 December 2012	17,032	403	746	18,181
Additions	–	100	1,256	1,356
Acquisition through business combinations (note 5)	3,063	–	4	3,067
Disposals	–	(103)	(5)	(108)
31 December 2013	20,095	400	2,001	22,496
Accumulated amortization and impairment				
31 December 2012	–	46	239	285
Amortization charge	–	61	350	411
31 December 2013	–	107	589	696
Net book value:				
31 December 2012	17,032	357	507	17,896
31 December 2013	20,095	293	1,412	21,800

	Goodwill	*Licenses*	*Computer software*	*Total*
Cost				
31 December 2011	16,558	57	391	17,006
Additions	–	235	355	590
Acquisition through business combinations (note 5)	474	111	–	585
31 December 2012	17,032	403	746	18,181
Accumulated amortization and impairment				
31 December 2011	–	27	151	178
Amortization charge	–	19	88	107
31 December 2012	–	46	239	285
Net book value:				
31 December 2011	16,558	30	240	16,828
31 December 2012	17,032	357	507	17,896

(Thousands of Georgian lari unless otherwise stated)

6. Goodwill and Other Intangible Assets (continued)

The recoverable amount of the total cash-generating unit has been determined based on a value-in-use calculation. The Group used cash flow projections based on financial budget of 2014 approved by senior management.

As of 31 December 2013, goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Insurance Company Aldagi
- JSC My Family Clinic
- Insurance Company Partner, LLC
- JSC Insurance Company Imedi-L international
- Caraps Medline, LLC

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

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

			Carrying amount of goodwill	
	Effective annual growth rate in three-year financial budgets	*WACC applied for impairment*	*31 December 2013*	*31 December 2012*
JSC Insurance Company Aldagi – BCI	*11.50%*	*14.70%*	15,557	15,557
JSC My Family Clinic	*13.80%*	*14.70%*	508	508
Insurance Company Partner, LLC	*11.50%*	*14.70%*	493	493
JSC Insurance Company Imedi L	*11.50%*	*14.70%*	474	474
Caraps Medline, LLC	*15.80%*	*14.70%*	3,063	–
Total :			20,095	17,032

(Thousands of Georgian lari unless otherwise stated)

7. Property and Equipment

The movements in property and equipment were as follows:

	Land and Office Buildings	*Hospitals and Clinics*	*Furniture and fixtures*	*Computers and medical equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under finance lease*	*Assets under construction*	*Total*
Gross book value									
31 December 2012	9,162	82,604	5,122	30,946	943	840	937	25,350	155,904
Acquisition through business combinations (note 5)	–	4,889	345	163	–	608	–	–	6,005
Additions	699	21,228	648	12,082	591	1,149	–	7,873	44,270
Revaluation	95	–	–	–	–	–	–	–	95
Disposals	(1,647)	(365)	(67)	(1,703)	(274)	(169)	–	(8,831)	(13,056)
Transfer	–	20,157	–	–	–	–	–	(20,157)	–
Transfers from (to) investment property	(950)	–	–	–	–	–	–	–	(950)
31 December 2013	7,359	128,513	6,048	41,488	1,260	2,428	937	4,235	192,268
Accumulated depreciation									
31 December 2012	22	512	917	3,993	203	255	277	–	6,179
Depreciation charge	171	1,026	460	4,134	194	61	–	–	6,046
Disposals	–	(3)	(27)	(92)	(225)	(138)	–	–	(485)
31 December 2013	193	1,535	1,350	8,035	172	178	277	–	11,740
Net book value:									
31 December 2012	9,140	82,092	4,205	26,953	740	585	660	25,350	149,725
31 December 2013	7,166	126,978	4,698	33,453	1,088	2,250	660	4,235	180,528

(Thousands of Georgian lari unless otherwise stated)

7. Property and Equipment (continued)

	Land and Office Buildings	*Hospitals and Clinics*	*Furniture and fixtures*	*Computers and medical equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under finance lease*	*Assets under construction*	*Total*
Gross book value									
31 December 2011	2,431	40,272	3,165	15,786	589	794	937	1,784	65,758
Acquisition through business combinations (note 5)	6,611	30,493	332	4,307	246	39	–	14,246	56,274
Additions	677	2,395	1,677	11,143	334	258	–	19,627	36,111
Disposals	(845)	(512)	(52)	(290)	(226)	(251)	–	(63)	(2,239)
Transfer	288	9,956	–	–	–	–	–	(10,244)	–
30 December 2012	9,162	82,604	5,122	30,946	943	840	937	25,350	155,904
Accumulated depreciation									
31 December 2011	5	18	585	1,136	98	211	277	–	2,330
Depreciation charge	37	494	359	2,889	186	52	–	–	4,017
Disposals	(20)	–	(27)	(32)	(81)	(8)	–	–	(168)
30 December 2012	22	512	917	3,993	203	255	277	–	6,179
Net book value:									
31 December 2011	2,426	40,254	2,580	14,650	491	583	660	1,784	63,428
30 December 2012	9,140	82,092	4,205	26,953	740	585	660	25,350	149,725

(Thousands of Georgian lari unless otherwise stated)

7. Property and Equipment (continued)

The Group engaged an independent appraiser to determine the fair value of its land and office buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was 31 December 2013. If the land and office buildings were measured using the cost model, the carrying amounts of the buildings as of 31 December 2013 and 2012 would be as follows:

	2013	*2012*
Cost	6,680	8,578
Accumulated depreciation and impairment	(592)	(421)
Net carrying amount	6,088	8,157

Based on the change in use, the Group reclassified one of its properties into investment properties category. An accredited independent appraiser determined fair value of the property as of 31 December 2013 applying valuation models recommended by the International Valuation Standards Committee. Fair value was determined as GEL 1,139.

8. Taxation

The corporate income tax expenses comprise:

	2013	*2012*
Current tax charge	4,438	2,451
Deferred tax charge – origination and reversal of temporary differences	(199)	73
Income tax expense	4,239	2,524

Georgian legal entities must file individual tax declarations. The corporate tax rate was 15% for 2013 and 2012.

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:

	2013	*2012*
IFRS income before tax	28,109	18,804
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	4,216	2,821
Non-taxable income	(616)	(337)
Non-deductible expenses	639	40
Income tax expense	4,239	2,524

(Thousands of Georgian lari unless otherwise stated)

8. Taxation (continued)

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

	2011	*In the income statement*	*Acquired through business combi-nation*	*2012*	*In the income statement*	*In OCI*	*2013*
Tax effect of deductible temporary differences:							
Insurance receivables	104	1,299	234	1,637	147	–	1,784
Tax loss carried forward	–	–	–	–	1,271	–	1,271
Insurance contracts liabilities	845	–	457	1,302	–	–	1,302
Reinsurance assets	19	–	–	19	3	–	22
Property and equipment	–	–	415	415	17	–	432
Allowances for impairment and provisions for other losses	951	–	–	951	426	–	1,377
Other insurance payables	15	–	–	15	–	–	15
Deferred acquisition costs	12	–	–	12	–	–	12
Other assets	78	–	114	192	26	–	218
Reinsurance premium payables	63	–	–	63	–	–	63
Other liabilities	72	(1,459)	–	(1,387)	12	–	(1,375)
Salaries and other benefits	19	–	–	19	216	–	235
Other assets	285	465	–	750	148	–	898
Investments	–	–	124	124	–	–	124
Deferred tax assets	2,463	305	1,344	4,112	2,266	–	6,378
Tax effect of taxable temporary differences:							
Reinsurance assets	–	63	–	63	–	–	63
Property and equipment	1,679	349	1,470	3,498	648	14	4,160
Allowances for impairment and provisions for other losses	–	–	–	–	87	–	87
Insurance contracts liabilities	381	850	–	1,231	1,214	–	2,445
Claims payable	532	(884)	–	(352)	–	–	(352)
Intangible assets	1,402	–	–	1,402	–	–	1,402
Other assets	–	–	–	–	56	–	56
Other liabilities	–	–	–	–	62	–	62
Deferred tax liabilities	3,994	378	1,470	5,842	2,067	14	7,923
Net deferred tax assets/(liabilities)	(1,531)	(73)	(126)	(1,730)	199	(14)	(1,545)
Net deferred tax asset	50	(227)	1,344	1,167	(612)	–	555
Net deferred tax liability	(1,581)	154	(1,470)	(2,897)	811	(14)	(2,100)

(Thousands of Georgian lari unless otherwise stated)

8. Taxation (continued)

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

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

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

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

9. Other Assets

Other assets as of 31 December comprise:

	2013	*2012*
Trade Receivables	18,252	10,787
Advances and prepayments	3,544	5,619
Inventory	4,445	5,109
Prepaid operating taxes	2,046	3,604
Receivables from regression	1,681	1,676
Other	553	59
	30,521	26,854
Less – Allowance for impairment of other assets (Note 15)	(4,066)	(2,838)
Other assets	26,455	24,016

As of 31 December 2013, prepayments for long-term assets of the Group include GEL 140 thousand of advances paid for the medical equipment.

As of 31 December 2012, prepayments for long-term assets of the Group include:

- 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 2012
- GEL 9,315 thousand of advances paid for the hospitals development and reconstruction works

10. Loan Issued

As of 31 December 2013, Loans issued by the Group consist mainly of the loan granted by Aldagi to Block Georgia and the loan issued by My Family Clinic to Poti medical hospital.

Issued to:	*2013*	*2012*
Block Georgia	5,414	4,633
Poti Clinic	2,544	2,219
Other	62	692
	8,020	7,544

(Thousands of Georgian lari unless otherwise stated)

11. Insurance and Reinsurance Receivables

Insurance and reinsurance receivables as of 31 December comprise:

	2013	*2012*
Due from policyholders	62,931	64,561
Due from reinsurers	2,574	2,107
Receivable from reinsurance ceded	–	30
	65,505	66,698
Less – allowance for impairment (Note 15)	(3,867)	(2,917)
Total insurance and reinsurance receivables	61,638	63,781

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

Allowance for impairment comprises of GEL 3,739 (2012: GEL 2,857) for amounts due from policyholders.

12. Deferred Acquisition Costs

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

	DAC
At 31 December 2011	1,534
Expenses deferred (note 29)	2,852
Amortization (note 29)	(3,772)
Acquisition through business combination	1,241
At 31 December 2012	1,855
Expenses deferred (note 29)	1,110
Amortization (note 29)	(1,978)
At 31 December 2013	987

13. Amounts Due from Credit Institutions

Amounts due from credit institutions as of 31 December comprise:

	2013	*2012*
Amounts Due from Credit Institutions		
- JSC Bank of Georgia	7,373	9,463
- JSC Kor Standard Bank	2,001	2,001
- ING Bank N.V.	1,787	1,697
- JSC TaoPrivatBank	751	–
- JSC BTA Bank	711	–
- JSC TBC Bank	323	1,792
- JSC Bank Constanta	306	2,004
- JSC Bank Republic	–	3,510
	13,252	20,467

Amounts due from credit institutions are represented by short (for 3 to 12 months) and medium-term placements with Georgian banks and earn annual interest of 2.6% to 14.5% (2012 – 2.6% to 16.5%). Amounts due from credit institutions include GEL 1,787 of restricted cash in accordance with the export facility agreement with ING Bank N.V and 5,756 GEL of restricted cash in accordance with facility agreement with JSC Bank of Georgia.

(Thousands of Georgian lari unless otherwise stated)

14. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December comprise:

	2013	*2012*
Cash on hand	179	155
Current accounts	8,846	10,566
Total cash and cash equivalents	9,025	10,721

Cash and Cash Equivalents of JSC Insurance Company Aldagi on stand-alone basis comprise GEL 7,732. The Georgian State Insurance Supervisory Agency (GSISA) is to maintain minimum level of cash and cash equivalents at 10% of the insurance contract liabilities subject to reservation as defined by GSISA regulatory reserve requirement resolution, which as of the reporting date amounts to GEL 1,691. (2012 – GEL 2,037)

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 9)*	*Total*
31 December 2011	1,652	494	2,146
Charge	1,585	2,344	3,929
Write-off	(320)	–	(320)
31 December 2012	2,917	2,838	5,755
Charge	983	1,228	2,211
Write-off	(33)	–	(33)
31 December 2013	3,867	4,066	7,933

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

16. Equity

As of 31 December 2013 the number of authorized ordinary shares was 15,286,000 (2012: 15,286,000) with a nominal value per share of one Georgian lari. Authorized shares amount to 15,286,000 at par value of one Georgian lari. All authorized shares have been issued and fully paid.

Authorised shares	*2013* *Thousands*	*2012* *Thousands*
Ordinary shares of 1GEL each	15,286	15,286

	Number of Shares (thousand shares)	*Nominal Amount*
Ordinary shares issued and fully paid		
At 31 December 2011	7,243	7,243
Increase in share capital	8,043	8,043
At 31 December 2012	15,286	15,286
At 31 December 2013	15,286	15,286

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 2013 and 2012.

(Thousands of Georgian lari unless otherwise stated)

16. Equity (continued)

	GEL '000
Share premium	
At 1 January 2012	10,565
Increase on 2 May 2012 due to issuance of additional shares for the acquisition of JSC Insurance Company Imedi-L International	24,457
At 31 December 2012	35,022
Increase in share premium to fund salaries and compensation expenses	1,201
At 31 December 2013	36,223

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

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

17. Pension Fund Assets and Liabilities

Effective 2 June 2005, the Group established a private pension plan. Contributions made by the Group's employees and other individuals are recorded as an accumulated pension liability to be repaid to the pension plan clients after pension age. Also, any income earned on this accumulated pension liability on behalf of the insured individuals will be accumulated and added to the pension benefit obligation. When an employee reaches pension age, aggregated contributions, plus any earnings earned on the employee's behalf are returned to the employee according to the schedule agreed with the employee.

Having collected funds from insured 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 Insurance Company Aldagi. 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 fund liabilities consisted of:

	2013	2012
Total net contributions to the pension fund	6,139	5,517
Total net income earned on net pension fund contributions	3,401	3,241
Pension Fund Liabilities	9,540	8,758

The movement of pension fund liabilities during 2013 and 2012 was as follows:

	2013	2012
Pension fund liabilities as of 1 January	8,758	6,353
Total pension fund instalments during the year	2,110	1,910
Administration commission	(33)	(31)
Management commission	(161)	(138)
Investment income commission	(125)	(107)
Membership commission	(3)	(5)
Net income (net of physical persons income tax)	482	1,418
Funds withdrawn by Participants	(1,488)	(642)
Total accumulated pension fund during the year	782	2,405
Pension fund liabilities as of 31 December	9,540	8,758

(Thousands of Georgian lari unless otherwise stated)

17. Pension Fund Assets and Liabilities (continued)

Pension Fund Assets as of 31 December 2013 consist mainly of Cash and Cash Equivalents and Deposits at Local Commercial Banks:

	2013	*2012*
Cash and cash equivalents	2,165	1,499
Amounts due from credit institutions	7,199	7,076
Available-for-sale financial assets	176	183
Pension Fund Assets	9,540	8,758

The Group's Pension Plan is in compliance with the requirements of the insurance regulator on pension liabilities allocation.

18. Insurance Contract Liabilities and Reinsurance Assets

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

	2013	*2012*
Insurance contracts liabilities		
- Unearned premiums provision	61,724	65,273
- Provisions for claims reported by policyholders	8,899	12,832
- Provisions for claims incurred but not reported (IBNR)	3,305	2,333
Total insurance contracts liabilities	73,928	80,438
Reinsurance assets		
- Reinsurers' share in unearned premiums provision	5,572	3,082
- Reinsurers' share in provisions for claims reported by policyholders	3,899	4,740
- Reinsurers' share in provisions for claims incurred but not reported (IBNR)	–	47
Total reinsurance assets	9,471	7,869
Insurance contracts liabilities net of reinsurance		
- Unearned premiums provision	56,152	62,191
- Provisions for claims reported by policyholders	5,000	8,092
- Provisions for claims incurred but not reported (IBNR)	3,305	2,286
Total insurance contracts liabilities net of reinsurance	64,457	72,569

(Thousands of Georgian lari unless otherwise stated)

18. Insurance Contract Liabilities and Reinsurance Assets (continued)

Insurance contract liabilities as of 31 December comprise:

		2013			2012		
	Notes	Insurance contracts liabilities	Reinsurers' share of liabilities	Net	Insurance contracts liabilities	Reinsurers' share of liabilities	Net
Life insurance contracts	(a)	642	51	591	1,915	173	1,742
General insurance contracts	(b)	73,286	9,420	63,866	78,523	7,696	70,827
Total insurance contracts liabilities		73,928	9,471	64,457	80,438	7,869	72,569

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

		2013			2012		
	Notes	Insurance contracts liabilities	Reinsurers' share of liabilities	Net	Insurance contracts liabilities	Reinsurers' share of liabilities	Net
At 1 January		1,915	173	1,742	439	30	409
Premiums written during the year	25	3,854	664	3,190	4,069	658	3,411
Premiums earned during the year		(4,960)	(645)	(4,315)	(3,971)	(722)	(3,249)
Claims incurred during the current accident year		1,401	300	1,101	812	201	611
Claims paid during the year	28	(1,568)	(441)	(1,127)	(540)	(84)	(456)
Assumed through Business Combination		–	–	–	1,106	90	1,016
At 31 December		642	51	591	1,915	173	1,742

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

		2013			2012		
	Notes	Insurance contracts liabilities	Reinsurers' share of liabilities	Net	Insurance contracts liabilities	Reinsurers' share of liabilities	Net
Provisions for claims reported by policyholders		8,543	3,892	4,651	12,309	4,592	7,717
Provisions for claims incurred but not reported (IBNR)		3,305	–	3,305	2,333	47	2,286
Outstanding claims provision	(1)	11,848	3,892	7,956	14,642	4,639	10,003
Provision for unearned premiums liabilities	(2)	61,438	5,528	55,910	63,881	3,057	60,824
		73,286	9,420	63,866	78,523	7,696	70,827

(Thousands of Georgian lari unless otherwise stated)

18. 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 analysed as follows:

	Notes	2013 Insurance contracts liabilities	2013 Reinsurers' share of liabilities	2013 Net	2012 Insurance contracts liabilities	2012 Reinsurers' share of liabilities	2012 Net
At 1 January		14,642	4,639	10,003	7,855	3,859	3,996
Claims incurred during the current accident year		83,462	251	83,211	57,477	1,880	55,597
Claims paid during the year	28	(86,256)	(998)	(85,258)	(58,606)	(1,281)	(57,325)
Assumed through Business Combination		–	–	–	7,916	181	7,735
At 31 December		11,848	3,892	7,956	14,642	4,639	10,003

(2) The provision for unearned premiums may be analysed as follows:

	Notes	2013 Insurance contracts liabilities	2013 Reinsurers' share of liabilities	2013 Net	2012 Insurance contracts liabilities	2012 Reinsurers' share of liabilities	2012 Net
At 1 January		63,881	3,057	60,824	26,995	4,889	22,106
Premiums written during the year	25	143,064	15,301	127,763	122,837	8,760	114,077
Premiums earned during the year		(145,507)	(12,830)	(132,677)	(105,841)	(11,149)	(94,692)
Assumed through Business Combination		–	–	–	19,890	557	19,333
At 31 December		61,438	5,528	55,910	63,881	3,057	60,824

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 rates derived from mortality tables that are developed through actuarial research. These annually renewed insurance contracts only pay a lump sum benefit when the insured person dies within that year. At the reporting date, the pro rata premium for the policy year that is not yet earned, is deferred in the caption 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.

(Thousands of Georgian lari unless otherwise stated)

18. Insurance Contract Liabilities and Reinsurance Assets (continued)

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

(b) General insurance contracts (continued)

(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 34).

(3) Loss development triangle

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

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

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

(Thousands of Georgian lari unless otherwise stated)

18. Insurance Contract Liabilities and Reinsurance Assets (continued)

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

	2010	*2011*	*2012*	*2013*	*Total*
Accident year	30,087	34,352	67,171	86,835	
One year later	29,817	35,788	66,827	–	
Two years later	30,792	35,528	–	–	
Three years later	30,523	–	–	–	
Current estimate of cumulative claims incurred:	30,523	35,528	66,827	86,835	219,713
Accident year	(24,285)	(29,464)	(54,838)	(77,351)	
One year later	(28,663)	(34,756)	(65,772)	–	
Two years later	(28,991)	(35,375)	–	–	
Three years later	(29,011)	–	–	–	
Cumulative payments to date:	(29,011)	(35,375)	(65,772)	(77,351)	(207,509)
Gross Outstanding Claims provision per the statement of financial position	1,512	153	1,055	9,484	12,204
Current Estimation of Surplus/(Deficiency)	(436)	(1,176)	344		
% of Surplus/ (deficiency) of initial gross reserve	-1.45%	-3.42%	0.51%		

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

	2010	*2011*	*2012*	*2013*	*Total*
Accident year	27,757	31,946	63,161	84,111	
One year later	27,649	33,941	65,005	–	
Two years later	28,444	33,752	–	–	
Three years later	28,053	–	–	–	
Current estimate of cumulative claims incurred:	28,053	33,752	65,005	84,111	210,921
Accident year	(23,420)	(28,573)	(53,944)	(76,653)	
One year later	(27,504)	(33,517)	(64,622)	–	
Two years later	(27,708)	(33,674)	–	–	
Three years later	(27,667)	–	–	–	
Cumulative payments to date:	(27,667)	(33,674)	(64,622)	(76,653)	(202,616)
Net Outstanding Claims provision per the statement of financial position	386	78	383	7,458	8,305
Current Estimation of Surplus/(Deficiency)	(296)	(1,806)	(1,844)		
% of Surplus/ (deficiency) of initial net reserve	-1.07%	-5.65%	-2.92%		

19. Derivative financial assets

The Group entered into foreign exchange option contract with JSC Bank of Georgia in order to manage its exposure resulting from fluctuations in foreign currency exchange rates. Notional amount for the active contract is USD 33 million. As at 31 December 2013, the marked-to-market value of derivative asset position is GEL 982, net of a credit valuation adjustment attributable to derivative counterparty default risk.

(Thousands of Georgian lari unless otherwise stated)

20. Other Insurance Liabilities

Other insurance liabilities as of 31 December include:

	2013	2012
Reinsurance payables	7,360	9,995
Claims payable	547	3,608
Other insurance liabilities	7,907	13,603

21. Borrowings

Borrowings as of 31 December comprise:

	2013	2012
Bank loans and related derivative financial liabilities	104,768	104,610
Interests payable	4,378	1,125
Liabilities under finance lease agreements	–	79
Bank overdraft	1,827	–
Total Borrowings	110,973	105,814

The bank loans have an average interest rate of 12.2% per annum (2012: 14.6%), maturing on average in 1,512 days (2012: 1,374 days). Some long-term borrowings from credit institutions are received upon certain conditions that the Group maintains different limits for leverage, capital investments, minimum amount of immovable property and others. At 31 December 2013 and 31 December 2012 the Group complied with all the covenants of the borrowings.

22. Trade Payables

Trade payables as of 31 December comprise:

	2013	2012
Trade payable for medical materials	4,198	4,485
Trade payable for medical services	2,448	2,418
Payable for purchase of shares (note 5)	454	1,374
Payable for construction	208	402
Other payables	703	853
Total trade payables	8,011	9,532

23. Other Liabilities

Other liabilities as of 31 December comprise:

	2013	2012
Accruals for employee compensation	7,684	8,263
Operating taxes payable	3,525	2,996
Advances received	–	42
Other	1,177	875
Other liabilities	12,386	12,176

(Thousands of Georgian lari unless otherwise stated)

24. Commitments and Contingencies

Legal

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

Taxation

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

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

Financial commitments and contingencies

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

	2013	*2012*
Operating lease commitments:		
-Not later than 1 year	1,903	90
- Later than 1 year but not later than 5 years	3,533	49
Capital commitments	8,682	5,500
Financial commitments and contingencies	14,118	5,639

2013 as well as 2012 year capital commitments are comprised of construction contracts for Samtskhe regional hospitals.

25. Net Insurance Revenue

Net insurance revenue comprises:

	2013	*2012*
Premiums written on general insurance contracts	143,064	122,837
Premiums written on life insurance contracts	3,854	4,069
Total written premiums	146,918	126,906
Gross change in life provision	1,106	(97)
Gross change in unearned premium provision	2,443	(16,997)
Total gross earned premiums on insurance contracts	150,467	109,812
Reinsurers' share of life insurance contracts premium revenue,	(664)	(658)
Reinsurers' share of general insurance contracts premium revenue, direct	(15,301)	(8,760)
Reinsurers' share of change in life provision	19	(64)
Reinsurers' share of change in general insurance contracts unearned premium provision	2,471	(2,389)
Total reinsurers' share of gross earned premiums on insurance contracts	(13,475)	(11,871)
Net insurance revenue	136,992	97,941

(Thousands of Georgian lari unless otherwise stated)

26. Interest Income and Interest Expense

Interest income and interest expense from financial instruments comprises:

	2013	2012
Interest Income		
Amounts Due from credit institutions	1,527	2,504
Loan issued	771	977
Cash and cash equivalents	73	380
Interest Income	2,371	3,861
Interest expense		
Borrowings	(12,229)	(8,825)

As of 31 December 2013, the amount of cost capitalized on property and equipment amounted to GEL 550. (2012 – GEL 1,821)

27. Other Operating Income

Other operating income comprise:

	2013	2012
Other operating income		
Medicaments received free of charge	488	389
Reinsurance commission	351	211
Revenue from Pension Fund	321	281
Income from sale of fixed assets	269	820
Net gain / (losses) from revaluation of investment property	189	–
Income from rent of office space	180	576
Factoring income	129	1,515
Penalty for breach of contract	3	72
Other	774	806
Total other operating income	2,704	4,670

28. Net Insurance Claims Incurred

Net insurance claims incurred comprise:

	Notes	2013	2012
General insurance claims paid, direct	18	(86,256)	(58,606)
Life insurance claims paid	18	(1,568)	(540)
Total insurance claims paid		(87,824)	(59,146)
Reinsurers' share of life claims paid	18	441	85
Reinsurers' share of general claims paid	18	998	1,281
Gross change in total insurance contract liabilities		2,961	1,124
Reinsurers' share of change in total insurance contract liabilities		(888)	716
Net insurance claims incurred		(84,312)	(55,940)

29. Acquisition Costs, Net of Reinsurance

Acquisition costs, net of reinsurance comprise:

	2013	2012
Acquisition costs,	(3,818)	(4,618)
Acquisition costs deferred (note 12)	1,110	2,852
Amortization of deferred acquisition costs (note 12)	(1,978)	(3,772)
Acquisition costs	(4,686)	(5,538)

(Thousands of Georgian lari unless otherwise stated)

30. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	2013	2012
Salaries	(14,059)	(12,817)
Bonuses	(3,912)	(4,164)
Insurance and other benefits	(278)	(231)
Share-based compensation	(1,400)	(59)
Salaries and other employee benefits	(19,649)	(17,271)

31. General and Administrative Expenses

General and administrative expenses comprise:

	2013	2012
Occupancy and rent	(1,852)	(2,205)
Marketing and advertising	(1,398)	(1,156)
Office supplies	(1,363)	(869)
Communications	(661)	(651)
Legal and consultancy	(613)	(690)
Bank fees and commissions	(524)	(369)
Business travel and related	(397)	(89)
Utilities	(372)	(746)
Repair and maintenance of property and equipment	(194)	(321)
Personnel training	(154)	(137)
Representative	(142)	(327)
Operating taxes	(127)	(71)
Printing	(123)	(222)
Charity	(41)	(66)
Security	(37)	(120)
Other	(836)	(271)
Total general and administrative expenses	(8,834)	(8,310)

32. Medical services rendered

Medical services rendered comprise:

	2013	2012
Revenue from government programs	20,107	11,438
Revenue from insurance companies	19,883	8,914
Revenue from free flow (non-insured retail individuals)	17,903	24,084
Other revenue from medical services	3,593	5,013
Total revenue from medical services	61,486	49,449

33. Cost of Medical Services Provided

Cost of medical services provided comprise:

	2013	2012
Direct salary expense	(21,474)	(19,175)
Direct materials	(7,289)	(7,603)
Depreciation expense	(5,160)	(3,306)
Expenses on medical service providers	(2,229)	(1,858)
Other direct expense	(1,827)	(1,180)
Total cost of medical services provided	(37,979)	(33,122)

(Thousands of Georgian lari unless otherwise stated)

34. 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 National Bank of Georgia directives.

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

Approach to capital management

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

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

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

Insurance risk

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

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

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

	2013	*2012*
Loss ratio	69%	57%
Combined ratio	85%	89%

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 31 December 2013	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
GEL 0 – 100 thousand	230,184	2,607	227,577
100 – 200 thousand	2,005	41	1,964
200 – 1000 thousand	2,759	99	2,660
Greater than 1,000 thousand	123,575	3,002	120,573
Total	358,523	5,749	352,774

Claims liabilities per life insured 31 December 2012	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
GEL 0 – 100 thousand	337,667	66,532	271,135
100 – 200 thousand	2,941	1,039	1,902
200 – 1000 thousand	4,048	2,537	1,511
Greater than 1,000 thousand	181,278	76,609	104,669
Total	525,934	146,717	379,217

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

(1) Life insurance contracts (continued)

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

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

The geographical concentration of the Group's insurance liabilities at 31 December 2013 and 2012 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 31 December 2013	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
Georgia	358,523	5,749	352,774
Total	358,523	5,749	352,774

Claims liabilities per life insured 31 December 2012	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
Georgia	525,934	146,717	379,217
Total	525,934	146,717	379,217

(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)

34. 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.

	2013			2012		
	Gross claims liabilities	*Reinsurers share of claims liabilities*	*Net claims liabilities*	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims*
Cargo	231	66	165	242	62	180
Motor	1,001	85	916	1,397	194	1,203
Property	4,073	2,587	1,486	3,510	2,230	1,280
Liability	1,340	1,155	185	2,267	2,108	159
Healthcare	4,974	–	4,974	6,914	2	6,912
Travel	98	–	98	31	–	31
Personal accident	2	–	2	46	–	46
Guarantees	126	–	126	232	44	188
Life	359	6	353	526	147	379
	12,204	3,899	8,305	15,165	4,787	10,378

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 2013 and 2012 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.

	2013			2012		
	Gross claims liabilities	*Reinsurers share of claims liabilities*	*Net claims liabilities*	*Gross claims liabilities*	*Reinsurers share of claims liabilities*	*Net claims liabilities*
Georgia	12,204	3,899	8,305	15,165	4,787	10,378
Total	12,204	3,899	8,305	15,165	4,787	10,378

(Thousands of Georgian lari unless otherwise stated)

34. 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.

Loans and receivables

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

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

Credit quality per class of financial assets

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

	Notes	*Neither past due nor impaired 2013*	*Past-due but not impaired 2013*	*Total 2013*
Amounts due from credit institutions	13	13,252	–	13,252
Derivative financial assets	19	982	–	982
Insurance and reinsurance receivables	11			
-Insurance receivables		55,591	3,473	59,064
-Reinsurance receivables		2,574	–	2,574
Total		72,399	3,473	75,872

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

Financial risk (continued)

(1) Credit risk (continued)

	Notes	*Neither past due nor impaired 2012*	*Past-due but not impaired 2012*	*Total 2012*
Amounts due from credit institutions	13	20,467	–	20,467
Available-for-sale financial assets		326	–	326
Insurance and reinsurance receivables	11			
-Insurance receivables		57,068	4,636	61,704
-Reinsurance receivables		2,077	–	2,077
Total		79,938	4,636	84,574

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.

(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.

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

Financial risk (continued)

(1) Liquidity risk (continued)

31 December 2013	*Within one year*	*More than one year*	*Total*
Assets			
Other assets	26,455	–	26,455
Loan Issued	509	7,511	8,020
Reinsurance assets	7,996	1,475	9,471
Available-for-sale financial assets	–	–	–
Derivative financial assets	982	–	982
Insurance and reinsurance receivables	60,997	641	61,638
Pension Fund Assets	6,076	3,464	9,540
Amounts due from credit institutions	7,490	5,762	13,252
Cash and cash equivalents	9,025	–	9,025
Total assets	119,530	18,853	138,383
Liabilities:			
Other liabilities	12,386	–	12,386
Trade Payables	8,011	–	8,011
Pension fund liabilities	–	9,540	9,540
Borrowings	19,569	91,404	110,973
Other insurance liabilities	5,955	1,952	7,907
Insurance contract liabilities	71,176	2,752	73,928
Total liabilities	117,097	105,648	222,745
Net position	2,433	(86,795)	(84,362)
Accumulated gap	2,433	(84,362)	

31 December 2012	*Within one year*	*More than one year*	*Total*
Assets			
Other assets	24,016	–	24,016
Loan Issued	2,911	4,633	7,544
Reinsurance assets	7,869	–	7,869
Available-for-sale financial assets	326	–	326
Derivative financial assets	–	–	–
Insurance and reinsurance receivables	63,781	–	63,781
Pension Fund Assets	3,039	5,719	8,758
Amounts due from credit institutions	7,110	13,357	20,467
Cash and cash equivalents	10,721	–	10,721
Total assets	119,773	23,709	143,482
Liabilities:			
Other liabilities	12,176	–	12,176
Trade Payables	9,130	402	9,532
Pension fund liabilities	–	8,758	8,758
Borrowings	5,953	99,861	105,814
Other insurance liabilities	13,603	–	13,603
Insurance contract liabilities	80,438	–	80,438
Total liabilities	121,300	109,021	230,321
Net position	(1,527)	(85,312)	(86,839)
Accumulated gap	(1,527)	(86,839)	

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

Financial risk (continued)

(2) Liquidity risk (continued)

The Group's accumulated gap is negative as of 31 December 2013 and 31 December 2012, however within one year period accumulated gap is positive as of 31 December 2013. The Group's management believes that these conditions do not indicate the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Based on its assessment, the Group's management believes that it has adequate resources, is able to improve liquidity, and is taking appropriate measures, to continue as a going concern. Most of borrowings are towards parent of the Group.

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 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Borrowings as at 31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*over 5 years*	*Total*
Borrowings	8,536	13,036	73,302	23,391	118,265
Total undiscounted borrowings	8,536	13,036	73,302	23,391	118,265

Borrowings as at 31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*over 5 years*	*Total*
Borrowings	7,936	19,566	80,583	42,248	150,333
Total undiscounted borrowings	7,936	19,566	80,583	42,248	150,333

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)

34. 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:

	2013		**2012**	
	GEL	USD	GEL	USD
Amounts due from credit institutions	10.9%	5.8%	14.0%	7.7%
Borrowings	13.8%	11.7%	16.1%	13.7%

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the interest expense for the year, based on the floating rate non-trading financial liabilities held at 31 December 2013. During the year ended 31 December 2013 and year ended 31 December 2012 sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement:

Currency	*Increase in basis points 2013*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2013*
USD	0.01%	1	–

Currency	*Decrease in basis points 2013*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2013*
USD	0.01%	(1)	–

Currency	*Increase in basis points 2012*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2012*
USD	0.01%	1	–

Currency	*Decrease in basis points 2012*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2012*
USD	0.01%	(1)	–

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.

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

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 2013 and 2012 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.

	2013			
	GEL	*USD*	*EUR*	*Total*
Assets:				
Cash and cash equivalents	7,112	1,892	21	9,025
Amounts due from credit institutions	5,703	7,549	–	13,252
Derivative financial assets	–	982	–	982
Loans Issued	29	7,991	–	8,020
Insurance and reinsurance receivables	49,304	11,422	912	61,638
Reinsurance assets	782	8,505	184	9,471
Total assets	62,930	38,341	1,117	102,388
Liabilities:				
Insurance contract liabilities	51,684	21,473	771	73,928
Other insurance liabilities	624	7,002	281	7,907
Borrowings	6,944	104,029	–	110,973
Trade Payables	8,011	–	–	8,011
Other liabilities	12,386	–	–	12,386
Total liabilities	79,649	132,504	1,052	213,205
Net position	(16,719)	(94,163)	65	(110,817)
Increase in currency rate in %		0.8%	1.9%	
Effect on profit		(753)	1	
Decrease in currency rate in %		-0.8%	-1.9%	
Effect on profit		753	(1)	

(Thousands of Georgian lari unless otherwise stated)

34. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

	2012			
	GEL	*USD*	*EUR*	*Total*
Assets:				
Cash and cash equivalents	2,341	8,230	150	10,721
Amounts due from credit institutions	9,354	11,113	–	20,467
Loans Issued	3,967	3,577	–	7,544
Insurance and reinsurance receivables	54,000	9,353	428	63,781
Reinsurance assets	4,664	3,142	63	7,869
Total assets	74,326	35,415	641	110,382
Liabilities:				
Insurance contract liabilities	59,730	20,051	657	80,438
Other insurance liabilities	3,597	9,531	475	13,603
Borrowings	10,775	95,039	–	105,814
Trade Payables	6,624	2,908	–	9,532
Other liabilities	12,176	–	–	12,176
Total liabilities	92,902	127,529	1,132	221,563
Net position	(18,576)	(92,114)	(491)	(111,181)
Increase in currency rate in %		1.2%	13.2%	
Effect on profit		(1,105)	(65)	
Decrease in currency rate in %		-1.2%	-13.2%	
Effect on profit		1,105	65	

As part of its risk management, the Group uses foreign exchange option contracts to manage exposures resulting from changes foreign currency exchange rates. Notional amount of the active exchange contracts as of 31 December 2013 equals USD 33 million.

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 2013 and 2012.

(Thousands of Georgian lari unless otherwise stated)

35. Fair Values Measurements

Fair value hierarchy

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

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

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

Assets measured at fair value	*Level 1*	*Level 2*	*Level 3*	*Total 2013*
Derivative financial assets	–	982	–	982
Property and equipment	–	–	7,166	7,166
Investment property	–	–	1,139	1,139
Assets for which fair values are disclosed				
Cash and cash equivalents	9,025	–	–	9,025
Amounts due from credit institutions	–	13,252	–	13,252
Loan Issued	–	–	8,020	8,020
Insurance and reinsurance receivables	–	–	61,638	61,638
Pension Fund Assets	–	–	9,540	9,540
Liabilities for which fair values are disclosed				
Borrowings	–	–	110,973	110,973
Unearned premiums provision			61,724	61,724
Pension Fund Liability	–	–	9,540	9,540

Assets measured at fair value	*Level 1*	*Level 2*	*Level 3*	*Total 2012*
Investment securities available-for-sale	–	–	326	326
Assets for which fair values are disclosed				
Cash and cash equivalents	10,721	–	–	10,721
Amounts due from credit institutions	–	20,467	–	20,467
Loan Issued	–	–	7,544	7,544
Insurance and reinsurance receivables			63,781	63,781
Pension Fund Assets	–	–	8,758	8,758
Liabilities for which fair values are disclosed				
Borrowings	–	–	105,814	105,814
Unearned premiums provision	–	–	65,273	65,273
Pension Fund Liability	–	–	8,758	8,758

As of 31 December 2012 level 3 financial instruments were comprised of ordinary shares of JSC GPC, which were fully disposed of as of 31 December 2013.

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

(Thousands of Georgian lari unless otherwise stated)

35. Fair Values Measurements (continued)

Fair value hierarchy (continued)

Derivative Financial Assets

Derivative Financial Assets consist of foreign exchange option contract used to manage Group's exposure to fluctuations in foreign currency exchange rates. Inputs used to determine fair value of the derivative asset are all directly observable on the active market.

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.

Property and Equipment, Investment Property

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

Impact of changes in key assumptions on fair value of level 3 assets measured at fair value

Level 3 property at fair value

	2013	Valuation technique	Significant unobservable inputs	Amount	Other key information	Area	Sensitivity of the input to fair value
Investment property	1,139						
	1,139	Market approach	Price per square metre	3,473	Square metres, building	593	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 114

	2013	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	7,166						
	5,719	Market approach	Price per square metre	813 - 5542	Square metres, building	72 - 971	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 572
	1,446	Cost approach	Replacement cost per square metre	72 - 168	Square metres, building	151 - 1317	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 120
			Developers' profit margin	10.0%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 12
			Land price pet square metre	6 - 19	Square metres, land	315 - 5782	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 145

(Thousands of Georgian lari unless otherwise stated)

35. Fair Values Measurements (continued)

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

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

	Carrying value 2013	*Fair value 2013*	*Unrecognised gain (loss) 2013*
Financial assets			
Cash and cash equivalents	9,025	9,025	–
Amounts due from credit institutions	13,252	13,252	–
Loan Issued	8,020	8,020	–
Insurance and reinsurance receivables	61,638	61,638	–
Pension Fund Assets	9,540	9,540	–
Financial liabilities			
Borrowings	110,973	110,973	–
Unearned premiums provision	61,724	61,724	–
Pension Fund Liability	9,540	9,540	–
Total unrecognised change in unrealised fair value			–

	Carrying value 2012	*Fair value 2012*	*Unrecognised gain (loss) 2012*
Financial assets			
Cash and cash equivalents	–	–	–
Amounts due from credit institutions	–	–	–
Loan Issued	7,544	7,544	–
Insurance and reinsurance receivables	63,781	63,781	–
Pension Fund Assets	8,758	8,758	–
Financial liabilities			
Borrowings	105,814	105,814	–
Unearned premiums provision	65,273	65,273	–
Pension Fund Liability	8,758	8,758	–
Total unrecognised change in unrealised fair value			–

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

Assets for which fair value approximates carrying value

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

(Thousands of Georgian lari unless otherwise stated)

36. 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:

	2013			*2012*	
	Parent	*Entities under common control**	*Key management personnel***	*Parent*	*Entities under common control**
Cash and cash equivalents	6,062	7	–	5,881	–
Amounts due from credit institutions	7,378	–	–	9,794	–
Derivative Financial Assets	982	–	–	–	–
Insurance and reinsurance receivables	820	425	–	791	459
Pension Fund Assets	835	21	–	839	21
Other assets	478	–	–	–	–
	16,555	453	–	17,305	480
Liabilities					
Borrowings	53,987	–	–	52,874	–
Other insurance liabilities	–	–	–	–	–
Other liabilities	395	–	–	186	27
	54,382	–	–	53,060	27
Income and expenses					
Insurance premium	4,044	860	–	4,246	846
Salaries and other employee benefits	(148)	–	–	–	–
Interest income on current and deposit accounts in banks	928	–	–	1,421	–
Other operating expenses	–	–	(186)	–	–
Interest expense on borrowings	(4,464)	–	–	(5,080)	(4)
	360	860	(186)	587	842

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

* Key management personnel include members of Aldagi's supervisory board and chief executive officer, deputies and their close family members.

Compensation of key management personnel (2013: 16 persons; 2012: 18 persons) comprised the following:

	2013	*2012*
Salaries and bonuses	3,563	3,703
Share-based payments compensation	1,499	59
Total key management compensation	5,062	3,762

(Thousands of Georgian lari unless otherwise stated)

37. Events after the Reporting Date

Acquisition of Avante Hospital Management Group LLC

On 20 February 2014 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of the Group, acquired from three individuals an 80% of shares in Avante Hospital Management Group LLC ("Acquiree") a healthcare company operating in Georgia from individuals. Remaining 20% of shares of the Avante Hospital Management Group were further acquired from another two individuals shortly, on 5 March 2014.

Total consideration given for the acquisition was GEL 24,586, of which GEL 25,723 was the cash given, further decreased by the GEL 1,137 of the previous liabilities assumed by the seller.

Initially estimated net asset value of the acquired business is GEL 25,618. Respectively, the initially estimated negative goodwill arising on the acquisition is GEL 1,032.

Initial purchase accounting is currently in progress and not all of the asset valuations and accounting estimates are formally finalized. Therefore, management considered a more detailed disclosure impracticable. A full and complete IFRS 3 disclosure will be presented in the Group's 2014 year-end financial statements.

Downsizing of state-funded programmes

Two programmes funded by state and administered by private insurance companies consisting of insurance coverage for socially vulnerable citizens, retired citizens and children are to be cut back in 2014 and fully withdrawn by 2015, as a result of introduction of Universal Healthcare Programme, which provides coverage to citizens not covered by private insurance programmes.

Issuance of new shares

On 6 March 2014 the parent raised Aldagi's share capital to GEL 17,061 and additional paid-in capital to GEL 45,630, in total an increase of GEL 11,183, in order to fund acquisition of Avante Hospital Management Group LLC.

On 15 April 2014 the parent raised Aldagi's share capital to GEL 23,961 and additional paid-in capital to GEL 82,200, in total a further increase of GEL 43,470, in order to fund a buy-out of minority interest in JSC My Family Clinic from Block-Invest LLC.