JSC Georgia Healthcare Group

Interim Consolidated Financial Statements

For the six-month period ended 30 June 2015
Together with Independent Auditors' Report

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

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

Independent auditors' report

To the Shareholders and the Management Board of Joint-stock Company "Georgia Healthcare Group"

We have audited the accompanying interim consolidated financial statement of JSC "Georgia Healthcare Group" and its subsidiaries, together referred to as "the Group", which comprise the interim consolidated statement of financial position as at 30 June 2015, and the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Interim Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these interim 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 the interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these interim 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 about whether the interim consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the interim consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the interim consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim 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 interim consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2015 and its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Other matter

The comparative financial information for the six-month period ended 30 June 2014 is unaudited.

EY Georgia LLC

21 August 2015

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

(Thousands of Georgian Lari)

	Notes	*30 June 2015*	*31 December 2014*
Assets			
Cash and cash equivalents	7	25,484	32,784
Amounts due from credit institutions	8	16,270	13,954
Insurance premiums receivable	9	31,914	17,673
Receivables from healthcare services	10	53,447	43,265
Prepayments	14	9,307	4,875
Property and equipment	11	320,218	262,938
Goodwill and other intangible assets	12	12,725	10,123
Current income tax assets		2,208	2,139
Deferred income tax assets	13	1,012	703
Other assets	15	31,507	20,823
Total assets		**504,092**	**409,277**
Liabilities			
Accounts payable	18	9,576	8,591
Accruals for employee compensation		12,981	9,740
Payables for share acquisitions	20	2,473	13,165
Insurance contract liabilities	16	30,142	17,583
Debt securities issued	19	33,012	–
Borrowings	17	162,507	162,860
Current income tax liabilities		5,329	4,641
Deferred income tax liabilities	13	13,773	8,880
Other liabilities	21	20,574	11,506
Total liabilities		**290,367**	**236,966**
Equity			
Share capital	23	89,446	28,335
Additional paid-in capital	23	66,648	99,138
Other reserves	23	(15,289)	(16,543)
Retained earnings		47,723	35,869
Total equity attributable to shareholders of the Group		**188,528**	**146,799**
Non-controlling interests		25,197	25,512
Total equity		**213,725**	**172,311**
Total equity and liabilities		**504,092**	**409,277**

Signed and authorized for release on behalf of the Management Board of JSC Georgia Healthcare Group:

Nikoloz Gamkrelidze Chief Executive Officer

David Vakhtangishvili Deputy Chief Executive Officer, Finance

21 August 2015

The accompanying notes on pages 5 to 45 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE

(Thousands of Georgian Lari)

	Notes	*30 June 2015*	*30 June 2014 (unaudited)*
Healthcare services revenue	24	82,553	52,437
Net insurance premiums earned	25	26,202	42,428
Revenue		**108,755**	**94,865**
Cost of healthcare services	26	(46,209)	(29,802)
Net insurance claims incurred	27	(20,101)	(33,154)
Costs of services		**(66,310)**	**(62,956)**
Gross profit		**42,445**	**31,909**
Other operating income	28	1,696	1,332
Salaries and other employee benefits	29	(12,602)	(9,901)
General and administrative expenses	30	(4,950)	(4,212)
Impairment of healthcare services, insurance premiums and other receivables	31	(1,846)	(1,095)
Other operating expenses	32	(1,155)	(1,848)
		(20,553)	**(17,056)**
EBITDA		**23,588**	**16,185**
Depreciation and amortization	11, 12	(4,889)	(3,707)
Interest income	33	1,223	823
Interest expense	33	(11,341)	(6,685)
Net gains/(losses) from foreign currencies		5,449	(1,783)
Net non-recurring (expense)/income	34	(767)	1,333
Profit before income tax expense		**13,263**	**6,166**
Income tax benefit /(expense)	13	53	(695)
Profit and total comprehensive income for the period		**13,316**	**5,471**
Attributable to:			
- shareholders of the Group		11,854	4,478
- non-controlling interests		1,462	993

The accompanying notes on pages 5 to 45 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE

(Thousands of Georgian Lari)

		Attributable to the shareholders of the Group						
	Notes	***Share capital***	***Additional paid-in capital***	***Other reserves***	***Retained earnings***	***Total***	***Non-controlling interest***	***Total equity***
31 December 2013		**13,686**	**34,317**	**438**	**25,662**	**74,103**	**24,623**	**98,726**
Profit for the period (unaudited)		–	–	–	4,478	4,478	993	5,471
Total comprehensive income (unaudited)		**–**	**–**	**–**	**4,478**	**4,478**	**993**	**5,471**
Issue of share capital (unaudited)		9,373	39,962	–	–	49,335	–	49,335
Non-controlling interests arising from business combinations (unaudited)	5	–	–	–	–	–	10,856	10,856
Acquisition of additional interest in existing subsidiaries (unaudited)	23	–	–	(16,981)	–	(16,981)	(12,845)	(29,826)
Share-based compensation (unaudited)		–	396	–	–	396	–	396
30 June 2014 (unaudited)		**23,059**	**74,675**	**(16,543)**	**30,140**	**111,331**	**23,627**	**134,958**

		Attributable to the shareholders of the Group						
31 December 2014		**28,335**	**99,138**	**(16,543)**	**35,869**	**146,799**	**25,512**	**172,311**
Profit for the period		–	–	–	11,854	11,854	1,462	13,316
Total comprehensive income		**–**	**–**	**–**	**11,854**	**11,854**	**1,462**	**13,316**
Non-controlling interests arising from business combinations	5	–	–	–	–	–	1,488	1,488
Acquisition of additional interest in existing subsidiaries	23	–	–	1,254	–	1,254	(3,265)	(2,011)
Holding company establishment	23	47,665	(47,665)	–	–	–	–	–
Loan conversion		13,446	14,834	–	–	28,280	–	28,280
Share-based compensation		–	341	–	–	341	–	341
30 June 2015		**89,446**	**66,648**	**(15,289)**	**47,723**	**188,528**	**25,197**	**213,725**

The accompanying notes on pages 5 to 45 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE

(Thousands of Georgian Lari unless otherwise stated)

	Notes	*30 June 2015*	*30 June 2014 (unaudited)*
Cash flows from operating activities			
Healthcare services revenue received		70,986	38,605
Cost of healthcare services paid		(44,544)	(24,421)
Net insurance premiums received		26,938	43,155
Net insurance claims paid		(18,163)	(34,211)
Salaries and other employee benefits paid		(11,625)	(9,473)
General and administrative expenses paid		(2,561)	(4,131)
Acquisition costs paid		(1,416)	(1,366)
Other operating income received		1,785	2,034
Other operating expenses paid		(1,891)	(1,896)
Net cash flows from operating activities before income tax		**19,509**	**8,296**
Income tax paid		(465)	(796)
Net cash flows from operating activities		**19,044**	**7,500**
Cash flows used in investing activities			
Acquisition of subsidiaries, net of cash acquired	5	(28,189)	(17,068)
Acquisition of additional interest in existing subsidiaries	23	(2,011)	(29,826)
Purchase of property and equipment		(24,196)	(6,638)
Purchase of intangible assets		(1,516)	(753)
Interest income received		316	285
Loans issued		(675)	–
Placements of amounts due from credit institutions		(135)	(382)
Proceeds from sale of property and equipment		1,891	609
Net cash used in investing activities		**(54,515)**	**(53,773)**
Cash flows from /(used in) financing activities			
Proceeds from issuance of ordinary shares		–	49,335
Proceeds from debt securities issued	19	34,247	–
Proceeds from borrowings		37,047	20,885
Repayment of borrowings		(35,314)	(16,049)
Purchase of derivative financial instruments		–	(45)
Proceeds from derivative financial instruments		2,000	–
Interest expense paid		(11,083)	(5,960)
Net cash flows from financing activities		**26,897**	**48,166**
Effect of exchange rates changes on cash and cash equivalents		1,274	537
Net (decrease) / increase in cash and cash equivalents		**(7,300)**	**2,430**
Cash and cash equivalents, beginning	7	**32,784**	**4,471**
Cash and cash equivalents, end	7	**25,484**	**6,901**

The accompanying notes on pages 5 to 45 are an integral part of these interim consolidated financial statements.

(Thousands of Georgian Lari unless otherwise stated)

1. Background

In 2014 the JSC Insurance Company Aldagi ("Aldagi") and its subsidiaries ("Aldagi group") began a corporate reorganization in order to separate the healthcare services and medical insurance business, from the property and casualty insurance business.

As at 1 August 2014, Aldagi's medical insurance business segment was separated and transferred to a newly established legal entity, JSC Insurance Company Imedi L ("Imedi L"). At the same time, healthcare providers included to the Aldagi group were transferred to a newly established holding company, JSC Medical Corporation EVEX ("EVEX").

Both Imedi L and EVEX have been ultimately owned by Bank of Georgia Holdings plc ("BGH") since the commencement of reorganization, but did not represent a group of entities until 29 April 2015, when BGH established a holding company, JSC Georgia Healthcare Group ("GHG" or "the Group"), and trasnfered its shares in Imedi L and EVEX to GHG. Refer to Note 23.

Financial information related to pre 29 April 2015 period has been prepared for GHG from the financial statements of the combined entities as if GHG has been established and the transfer of the BHG's shares in EVEX and Imedi L has been completed as at 31 December 2013.

As at 30 June 2015 and 31 December 2014 the ultimate parent of GHG is Bank of Georgia Holdings plc ("BGH").

The Group's healthcare services business provides medical services to inpatient and outpatient customers through a network of hospitals and clinics throughout Georgia. And its medical insurance business offers a wide range of medical insurance products, including personal accident, term life insurance products bundled with medical insurance and travel insurance policies to corporate and retail clients.

The legal addresses of GHG is No. 40 Vazha-Pshavela Avenue, Tbilisi. The Group is incorporated and operating under the laws of Georgia. Legal form of GHG is joint stock company.

GHG has the following shareholders:

Shareholder	***30 June 2015***	***31 December 2014***
JSC Bank of Georgia	85%	88%
Bank of Georgia Holdings PLC	15%	–
JSC Galt & Taggart Holdings	–	12%
Total	**100%**	**100%**

The Group included the following subsidiaries incorporated in Georgia:

	Ownership/Voting				
Subsidiary	***30 June 2015***	***31 December 2014***	***Industry***	***Date of incorporation***	***Date of acquisition***
JSC My Family Clinic	*	100%	Healthcare	3-Oct-05	Not Applicable
LLC Deka	95%	–	Healthcare	17-Jul-01	30-June-15
JSC St. Nicholas Surgery Clinic	93%	93%	Healthcare	10-Nov-00	20-May-08
LLC Imereti Regional Clinical Hospital	*	100%	Healthcare	19-Jul-10	24-Sep-10
JSC Zugdidi multi profile Clinical Hospital "Republic"	*	100%	Healthcare	19-Oct-99	29-Nov-11
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	67%	67%	Healthcare	5-May-03	29-Nov-11
JSC Chkhorotskhu Regional Central Hospital	*	100%	Healthcare	30-Nov-99	29-Nov-11
LLC Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia	67%	67%	Healthcare	15-Oct-04	29-Nov-11
LLC E.K. Pipia Central Hospital of Tsalenjikha	*	100%	Healthcare	1-Sep-99	29-Nov-11
LLC Martvili Multi profile Hospital	*	100%	Healthcare	17-Mar-00	29-Nov-11
LLC Abasha Outpatient-Polyclinic Union	*	100%	Healthcare	16-Mar-00	29-Nov-11
LLC Tskaltubo Regional Hospital	67%	67%	Healthcare	29-Sep-99	29-Nov-11
LLC Khobi Central Regional Hospital	*	100%	Healthcare	13-Jul-00	29-Nov-11
LLC Unimed Achara	100%	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Unimedi Samtskhe	100%	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Unimedi Kakheti	100%	100%	Healthcare	29-Jun-10	30-Apr-12
LLC Caraps Medline	**	100%	Healthcare	26-Aug-98	26-Dec-13
NPO EVEX Learning Center	100%	100%	Other	20-Dec-13	20-Dec-13
LLC Biznes Centri Kazbegze	100%	100%	Other	22-Jun-10	24-Aug-11
JSC Medical Corporation EVEX	100%	100%	Healthcare	1-Aug-14	1-Aug-14
LLC SunStone Medical	**	100%	Healthcare	9-Nov-12	21-May-14
LLC M. Iashvili Children Central Hospital	67%	67%	Healthcare	3-May-11	19-Feb-14
LLC Avante Hospital Management Group	**	100%	Healthcare	5-Aug-11	19-Feb-14
LLC Children New Clinic	**	75%	Healthcare	18-Jul-11	19-Feb-14
LLC New Life	**	100%	Healthcare	21-Sep-99	19-Feb-14
LLC Batumi Mother and Children Healthcare Center	**	100%	Healthcare	19-Nov-04	19-Feb-14
LLC Traumatology	*	100%	Healthcare	20-Jul-11	30-Sep-14
JSC Insurance company Imedi L	100%	100%	Insurance	31-Jul-14	31-Jul-14
LLC Tbilisi Emergency Center	100%	–	Healthcare	16-Feb-2010	1-March-15

* The hospitals were merged with JSC Medical Corporation EVEX during the six month period ended 30 June 2015.

** The hospitals were merged with LLC Unimed Kakheti during the six month period ended 30 June 2015.

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of Preparation

Basis of preparation

These interim consolidated financial statements for the six-month period ended 30 June 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS).

The interim consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and office buildings classified as property and equipment and derivative financial instruments that have been measured at fair value. These interim consolidated financial statements have been presented in thousands of Georgian lari (GEL), except otherwise stated.

Reclassifications

During six month period ended 30 June 2015 the Group reconsidered presentation of its consolidated statement of financial position accounts for the purpose of more accurate presentation of receivables from healthcare services and payables for share acquisitions. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

Consolidated statement of financial position	***As previously reported***	***Reclassification***	***As reclassified***
Receivables from healthcare services	43,814	(549)	43,265
Other Assets	20,274	549	20,823
Payables for share acquisitions	13,694	(529)	13,165
Accounts payable	8,081	510	8,591
Other liabilities	11,487	19	11,506

3. Summary of Significant Accounting Policies

Changes in accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the adoption of the following new Standards effective as of 1 January 2015 thatt did not have any impact on Group's financial statements:

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*;
- *Annual improvements 2010-2012 Cycle* that includes amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16 and IAS 24;
- *Annual improvements 2011-2013 Cycle* that includes amendments to IFRS 3, IFRS 13, IAS 30 and IFRS 1..

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Basis of consolidation

The interim consolidated financial statements comprise the financial statements of GHG and its subsidiaries as at 30 June 2015. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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. 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 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.

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 other operating 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.

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.

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.

Receivables from healthcare services

Receivables from healthcare services are recognised initially at the transaction price deemed to be fair value at origination date. They are subsequently measured at amortized cost using the effective interest method, less any provision for impairment. The carrying value of healthcare receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated profit or loss.

Financial assets

Financial assets in the scope of IAS 39 are classified either as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets 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.

Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. These investments are initially recognised at cost, which is 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 recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

As part of its risk management, the Group uses foreign exchange option and forward contracts to manage exposures resulting from changes in foreign currency exchange rates. Such financial instruments are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from the derivative contracts are included in the consolidated profit or loss in net gains/(losses) from foreign currencies.

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 recognised in the consolidated profit or loss.

Assets carried at amortized cost

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

The 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 recognised 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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Derecognition of financial instruments

Financial assets

A financial asset (or, if applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the following conditions are met:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its right 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Derecognition of financial instruments (continued)

Financial assets (continued)

Where the Group has transferred its right 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 recognised 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 that 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.

Borrowings

A borrowing is derecognised when the obligation under the liability is discharged or cancelled or expires and if its terms are substantially modified.

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 recognised 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 profit or loss unless required or permitted by any accounting standard or interpretation.

Insurance contracts

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

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

Insurance premiums receivables

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

Insurance contract liabilities

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

Deferred acquisition costs

Deferred acquisition costs ("DAC") are capitalized costs related to the issuance of insurance policies. They consist of commissions paid to agents, brokers and some employees. They are amortized on a straight line basis over the life of the contract.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Fair value measurement

The Group revalues derivatives at fair value at each balance sheet date and investment property, land and office buildings at each balance sheet date if their fair value differs materially from carrying value. Fair values of financial instruments measured at amortised cost are disclosed in Note 38.

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.

Property and equipment

Property and equipment except for land and 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.

Included in hospitals and buildings category are buildings in which referral hospitals, community hospitals and ambulatory clinics are placed.

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 recognised in the consolidated profit or loss as an expense.

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

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

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

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

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

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Property and equipment (continued)

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses unless they qualify for capitalization.

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

Assets under construction comprises costs directly related to construction of property 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 ready for use.

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

Investment properties

Investment properties are represented by an office building, 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. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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 profit or loss in the period of derecognition.

Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is determined on a weighted average basis and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition.

Borrowings

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

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest 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 such asset. 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.

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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Taxation (continued)

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 general and administrative expenses.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of such assets of between 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 the 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 recognised 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 recognised as an expense as incurred.

Provisions and contingent liabilities

Provisions are recognised 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 recognised as an asset but only when it is virtually certain that it will be received.

Share-based compensation transactions

Senior executives of the Group receive share-based compensation, whereby employees render services as consideration for the equity instruments of BGH. Share-based compensation plans awarded by BGH are treated as equity-settled transactions, and no liability to be settled by GHG is recognised. Share-based compensation plans awarded by GHG are recognized as a liability and included in accruals for employee compensation.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Share-based compensation transactions (continued)

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date of the transaction. 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 profit or loss charge the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Cash-settled transactions

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

Equity

Share capital

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

Dividends

Dividends are recognised 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

Healthcare services revenue

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. Revenue is presented net of corrections and rebates that occasionally arise as a result of reconciliation of detailed bills with counterparties (mostly with the state).

Healthcare services revenue comprises the fair value of the consideration received or receivable for providing impatient and outpatient services and includes following components:

- Healthcare services revenue from insurance companies – The Group recognizes revenue from the individuals who are insured by various insurance companies based on the completion of the actual medical service and agreed-upon terms between the counterparties.
- Healthcare services revenue from state – The Group recognizes the revenue from the individuals who are insured under the state programs based on the completion of the actual medical service and the agreed-upon terms between the counterparties.
- Healthcare services revenue from out-of-pocket and other – The Group recognizes the revenue from non-insured individuals based on the completion of the actual medical service and approved prices by the Group. Sales are usually in cash or by credit card. Other revenue from medical services includes revenue from municipalities and other hospitals, which the Group has contractual relationship with. Sales of services are recognized in the accounting period in which the services are rendered calculated according to contractual tariffs.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Net insurance premiums earned

Insurance premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage. Premiums written reflect business incepted during the period, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a period that relate to periods after the reporting date. Unearned premiums are computed on monthly pro rata basis.

Unearned premium reseirve

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

Cost of healthcare services

Cost of healthcare services rendered represents expenses directly related to the generation of revenue from healthcare services rendered, including but not limited to salaries and benefits of medical personnel, materials and supplies, utilities and other direct costs.

Net claims incurred

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

EBITDA

The Group separately presents EBITDA on the face of statement of comprehensive income. EBITDA is defined as earnings before interest, taxes, depreciation and amortisation and is derived as the Group's Profit before income tax expense but excluding the following line items: depreciation and amortization, interest income, interest expense, net losses from foreign currencies and net non-recurring (expense)/income.

Net non-recurring (expense)/income

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an extraordinary economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors.

Foreign currency translation

The interim consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency and functional currency of all the Group's components. 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 at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated profit or loss within net losses from foreign currencies.

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 net losses from foreign currencies in the consolidated profit or loss. The official NBG exchange rates at 30 June 2015 and 31 December 2014 were 2.2483 and 1.8636 Georgian Lari to 1 U.S. Dollar, respectively.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Standards and interpretations that are issued but not yet effective

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

IFRS 15 Revenue from Contracts with Customers

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15.

IFRS 9 *Financial Instruments*

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

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

4. Significant Accounting Judgments and Estimates

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 period. 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.

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 period are discussed below.

Impairment of receivables from healthcare services

The impairment provision for receivables from healthcare services is based on the Group's assessment of the collectability of specific customer accounts. If there is a sign of deterioration in a individually significant customer's creditworthiness, the respective receivable is considered to be impaired. Key criteria for defining the signs of such deterioration is the customers' debt services quality measured by the numbers of days in arrears (i.e. the number of days for overdue payments). Based on the respective analysis of the current and past debt services of the customers, the Group determines whether or not there is an objective evidence of an impairment. If yes, then the proper provision rate is applied which reflects credit risk associated with that particular category of debt services. If not, then respective accounts receivable are assessed collectively, as a good quality, in a total pool for the good credit quality receivables, again based on the number of days overdue, which practically implies immaterial amount of overdue days.

(Thousands of Georgian Lari unless otherwise stated)

4. Significant Accounting Judgments and Estimates (continued)

Impairment of receivables from healthcare services (continued)

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

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of the healthcare receivables as at 30 June 2015 was GEL 6,542 (2014: GEL 5,157). Refer to Note 10.

Impairment of insurance premiums receivable

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

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

Actual results may differ from the estimates and the Group's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure. The amount of allowance for impairment of insurance premiums receivable as at 30 June 2015 was GEL 2,364 (2014: GEL 2,255). Refer to Notes 9 and 31.

Current income tax recognition

The current income tax charge is calculated in accordance with the Georgian legislation enacted or substantively enacted by the reporting date. The judgment is applied to assess and determine the portion of the current period profit that the Group will reinvest in its core economical activities during the next three years. The probable future reinvestment amount of current period profit is based on medium term business plan (three years following the current period) prepared by the management. Further details on taxation are disclosed in Note 13.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. Insurance claims provisions are not discounted for the time value of money. The carrying amount of the claims incurred but not yet reported as at 30 June 2015 was GEL 1,536 (2014: GEL 1,603). Refer to Note 16.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations

Acquisitions in six month period ended 30 June 2015

LLC Deka

On 30 June 2015 JSC Medical Corporation EVEX ("Acquirer"), a wholly owned subsidiary of the Group, acquired 95% of the shares of LLC Deka ("Acquiree"), a healthcare company operating in Georgia from individual investors.

The provisional fair values of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Assets	
Cash and cash equivalents	66
Property and equipment	37,916
Other assets	188
Total assets	**38,170**
Liabilities	
Borrowings	54
Accounts payable	1,183
Accruals for employee compensation	983
Current income tax liabilities	800
Deferred income tax liabilities	5,319
Other liabilities	63
Total liabilities	**8,402**
Total identifiable net assets	**29,768**
Non-controlling interests	1,488
Goodwill arising on acquisition	–
Consideration given[1]	**28,280**

1. Consideration comprised GEL 28,280, which was made fully in cash.

Net cash outflow for the acquisition was as follows:

Cash paid	28,280
Cash acquired with the subsidiary	(66)
Net cash outflow	**28,214**

The net assets presented above are estimated provisionally as at the issue 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 12-month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3).

If the combination had taken place at the beginning of the period, the Group would have recorded GEL 110,063 and GEL 13,098 of revenue and profit respectively.

The Group has elected to measure the non-controlling interests in LLC Deka at the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (continued)

Acquisitions in six month period ended 30 June 2015 (continued)

LLC Tbilisi Emergency Center

On 1 March 2015 JSC Medical Corporation EVEX, a wholly owned subsidiary of the Group, acquired 100% share in LLC Tbilisi Emergency Center, a healthcare company operating in Georgia from individual investors.

The provisional fair values of identifiable assets and liabilities of the Acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Assets	
Cash and cash equivalents	25
Receivables from healthcare services	111
Property and equipment	104
Other assets	7
Total assets	**247**
Liabilities	
Accounts payable	7
Accruals for employee compensation	51
Other liabilities	58
Total liabilities	**116**
Total identifiable net assets	**131**
Non-controlling interests	–
Goodwill arising on acquisition	869
Consideration given[1]	**1,000**

1. Consideration comprised GEL 1,000 which is due within 1 year.

Net cash outflow for the acquisition was as follows:

Cash paid	–
Cash acquired with the subsidiary	(25)
Net cash outflow	**(25)**

If the combination had taken place at the beginning of the period, the Group would have recorded GEL 110,174 and GEL 13,680 of revenue and profit respectively.

The net assets as well as the amount of goodwill presented above are estimated provisionally as at the issue 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 12-month period from the acquisition date, as allowed by "Business Combinations" (IFRS 3).

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy that is expected to be brought into the Group's operations. For the tax legislation purposes goodwill is recognized on a stand-alone balance of a company only subsequent to the legal merger of the relevant cash generating unit. Until then goodwill as an asset does not exist separately for tax purposes, rather its full amount is part of the historical cost of the investment on the company's balance sheet. Subsequent to the merger, for the tax legislation purposes, full amount of the goodwill is recognized as an intangible asset per the tax code and is subsequently amortized applying the algorithm provided by the tax code. Such amortization is fully deductible for the tax purposes.

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information

For management purposes, the Group is organized into two operating segments based on the products and services – Healthcare services and Medical insurance.

Healthcare services are the inpatient and outpatient medical services delivered by the referral hospitals, community hospitals and ambulatory clinics owned by the Group throughout the whole Georgian territory.

Medical insurance comprises a wide range of medical insurance products, including personal accident insurance, term life insurance products bundled with medical insurance and travel insurance policies, which are offered by the Group's wholly owned subsidiary Imedi L.

Management monitors the operating results of each of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as in the table below, is measured in the same manner as profit or loss in the interim consolidated financial statements.

Transactions between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

More than 50% of the Group's revenue is derived from the state. However, management believes that the government cannot be considered as a single client, because the customers of the Group are the patients that receive medical services and not the counterparties that pay for these services. Therefore, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue in the six month period ended 30 June 2015 or 30 June 2014.

Statement of comprehensive income and selected items from the statement of financial position by segments are presented below:

	30 June 2015			
	Healthcare Services	***Medical Insurance***	***Intersegment transactions and balances***	***Total***
Healthcare services revenue	86,577	–	(4,024)	82,553
Net insurance premiums earned	–	26,365	(163)	26,202
Revenue	**86,577**	**26,365**	**(4,187)**	**108,755**
Cost of healthcare services	(48,462)	–	2,253	(46,209)
Net insurance claims incurred	–	(21,872)	1,771	(20,101)
Costs of services	**(48,462)**	**(21,872)**	**4,024**	**(66,310)**
Gross profit	**38,115**	**4,493**	**(163)**	**42,445**
Other operating income	1,567	129	–	1,696
Salaries and other employee benefits	(10,837)	(1,928)	163	(12,602)
General and administrative expenses	(3,687)	(1,263)	–	(4,950)
Impairment of healthcare services, insurance premiums and other receivables	(1,737)	(109)	–	(1,846)
Other operating expenses	(1,076)	(79)	–	(1,155)
	(17,337)	**(3,379)**	**163**	**(20,553)**
EBITDA	**22,345**	**1,243**	**–**	**23,588**
Depreciation and amortization	(4,600)	(289)	–	(4,889)
Interest income	397	1,110	(284)	1,223
Interest expense	(10,481)	(1,144)	284	(11,341)
Net gains from foreign currencies	4,880	569	–	5,449
Net non-recurring expense	(767)	–	–	(767)
Profit before income tax expense	**11,774**	**1,489**	**–**	**13,263**
Income tax benefit / (expense)	708	(655)	–	53
Profit and total comprehensive income for the period	**12,482**	**834**	**–**	**13,316**
Assets and liabilities				
Total assets	437,341	74,885	(8,134)	504,092
Total liabilities	242,167	56,334	(8,134)	290,367
Other segment information				
Property and equipment	316,442	3,776	–	320,218
Intangible assets	1,367	2,074	–	3,441

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (continued)

	30 June 2014 (unaudited)			
	Healthcare Services	***Medical Insurance***	***Intersegment transactions and balances***	***Total***
Healthcare services revenue	65,728	–	(13,291)	52,437
Net insurance premiums earned	–	42,539	(111)	42,428
Revenue	**65,728**	**42,539**	**(13,402)**	**94,865**
Cost healthcare services	(38,610)	–	8,808	(29,802)
Net insurance claims incurred	–	(37,637)	4,483	(33,154)
Costs of services	**(38,610)**	**(37,637)**	**13,291**	**(62,956)**
Gross profit	**27,118**	**4,902**	**(111)**	**31,909**
Other operating income	1,196	136	–	1,332
Salaries and other employee benefits	(7,320)	(2,692)	111	(9,901)
General and administrative expenses	(2,961)	(1,251)	–	(4,212)
Impairment of healthcare services, insurance premiums and other receivables	(833)	(262)	–	(1,095)
Other operating expenses	(1,798)	(50)	–	(1,848)
	(12,912)	**(4,255)**	**111**	**(17,056)**
EBITDA	**15,402**	**783**	**–**	**16,185**
Depreciation and amortization	(3,397)	(310)	–	(3,707)
Interest income	154	1,418	(749)	823
Interest expense	(6,311)	(1,123)	749	(6,685)
Net (losses)/gains from foreign currencies	(2,017)	234	–	(1,783)
Net non-recurring income	1,333	–	–	1,333
Profit before income tax expense	**5,164**	**1,002**	**–**	**6,166**
Income tax expense	(465)	(230)	–	(695)
Profit and total comprehensive income for the period	**4,699**	**772**	**–**	**5,471**
Assets and liabilities				
Total assets	279,171	73,535	(8,799)	343,907
Total liabilities	158,441	59,306	(8,799)	208,948
Other segment information				
Property and equipment	223,083	3,649	–	226,732
Intangible assets	1,405	570	–	1,975

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	30 June 2015	*31 December 2014*
Current and on-demand accounts with banks	25,383	32,643
Cash on hand	101	141
Total cash and cash equivalents	**25,484**	**32,784**

Cash and cash equivalents of Imedi L on stand-alone basis comprise GEL 1,821 (2014: GEL 7,183). The requirement of the Insurance State Supervision Service of Georgia ("ISSSG") is to maintain a minimum level of cash and cash equivalents at 10% of the total insurance contract liabilities subject to reservation as defined by the ISSSG regulatory reserve requirement resolution, which as at the reporting date amounts to GEL 634 (2014: GEL 571).

(Thousands of Georgian Lari unless otherwise stated)

8. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	30 June 2015	*31 December 2014*
Time deposits with banks, foreign currency	10,503	8,426
Time deposits with banks, local currency	5,767	5,528
Total amounts due from credit institutions	**16,270**	**13,954**

As at 30 June 2015 amounts due from credit institutions are represented by short (remaining maturity from reporting date of 1 to 12 months) and medium-term placements with banks and earn annual interest of 0.54% to 12% (2014: 0.54% to 12%). As at 30 June 2015 amounts due from credit institutions include GEL 2,039 (2014: GEL 1,686) of restricted cash under the export facility agreement with ING Bank N.V and GEL 8,464 (2014: GEL 6,740) of restricted cash pledged as a security for borrowing from JSC Bank of Georgia.

9. Insurance Premiums Receivables

Insurance premiums receivables comprise:

	30 June 2015	*31 December 2014*
Insurance premiums receivable from policyholders	34,278	19,928
Less – allowance for impairment	(2,364)	(2,255)
Total insurance premiums receivables	**31,914**	**17,673**

The carrying amounts disclosed above reasonably approximate their fair values as at 30 June 2015 and 31 December 2014.

10. Receivables from Healthcare Services

Receivables from healthcare services comprise:

	30 June 2015	*31 December 2014*
Receivables from state	45,399	34,048
Receivables from individuals and other	11,699	8,364
Receivables from insurance companies	2,891	6,010
	59,989	**48,422**
Less – Allowance for impairment	(6,542)	(5,157)
Total receivables from healthcare services	**53,447**	**43,265**

The Group's largest receivable is from the state, representing amounts receivable under the Universal Healthcare Program ("UHC") introduced by the state in March 2013. Through the UHC, the state provides basic healthcare coverage to the entire population, including more than 2 million people who previously lacked any medical insurance and purchased healthcare services only on an out-of-pocket basis. Currently fully operational, the implementation of UHC took place in several stages:

- March 2013. Urgent in-patient and limited out-patient healthcare was offered free of charge for individuals who were previously not covered by state or private insurance programs (accounting for approximately 2 million people, including children above the age of six and adults);
- July 2013. UHC was extended to cover intensive therapy, planned surgeries, treatment of oncology diseases (including radiotherapy, chemotherapy and hormone therapy) as well as childbirth expenses;
- April 2014. UHC superseded the State Insurance Program (SIP) – the first of two existing state insurance programs that had provided healthcare coverage to "economically vulnerable" citizens since 2007;
- September 2014. UHC superseded the second SIP (under the Decree №165) that covered pensioners, children under 6 and students.

(Thousands of Georgian Lari unless otherwise stated)

10. Receivables from Healthcare Services (continued)

A summary description of UHC is as follows:

- UHC is fully financed by the government and administered by the Social Service Agency. In most cases beneficiaries have an annual limit of GEL 15,000 per incident. This threshold limits the services to which a patient can have access, resulting in the need for co-payment for most critical elective services;
- UHC beneficiaries are eligible to select a healthcare provider of their choice, as long as it is enrolled in the program;
- Any provider, private or public, is eligible to participate in the program;
- The actual prices that are charged to patients by healthcare providers are not regulated by the state. However, the reimbursement scheme (i.e. the amount paid by the state to healthcare providers) differs depending on the type of services:
    - The capitation method is used for elective outpatient services;
    - Emergency medical care tariffs are based on the minimum historic prices under the previous state medical insurance programs, with the possibility of changes over time;
    - For elective in-patient services, the amount reimbursed by the state is based on the average of the lowest 25^{th} percentile of the prices charged by countrywide providers, with the patient making a co-payment for any excess charges.

UHC reimbursement scheme for the selected services in Georgia is as follows:

Service	**Reimbursement from the State**
Scheduled ambulatory service	70%
Service of a family doctor and basic laboratory tests	100%
Emergency in-patient services	70/100% with a limit for a single accident of GEL 15,000
Scheduled surgeries and associated tests	70%; annual limit – GEL 15,000
Treatment of oncology diseases	80%; annual limit – GEL 12,000
Childbirth	GEL 500; caesarean section – GEL 800

(Thousands of Georgian Lari unless otherwise stated)

11. Property and Equipment

The movements in property and equipment were as follows:

	Land and office buildings	*Hospitals & clinics*	*Furniture and fixtures*	*Computers*	*Medical equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Cost or revalued amount									
1 January 2014	**2,031**	**129,218**	**6,172**	**2,421**	**38,286**	**1,504**	**2,483**	**1,317**	**183,432**
Acquisition through business combinations (Note 5) (unaudited)	–	44,288	590	797	4,514	300	–	141	50,630
Additions (unaudited)	–	3,975	474	489	2,031	334	320	81	7,704
Disposals (unaudited)	–	–	(23)	(175)	(403)	(42)	(141)	–	(784)
Transfer (unaudited)	–	424	–	–	–	–	(368)	(56)	–
30 June 2014 (unaudited)	**2,031**	**177,905**	**7,213**	**3,532**	**44,428**	**2,096**	**2,294**	**1,483**	**240,982**
1 January 2015	**2,031**	**209,265**	**7,947**	**4,241**	**49,016**	**2,762**	**1,300**	**4,373**	**280,935**
Acquisition through business combinations (Note 5)	–	36,498	317	2	903	106	–	194	38,020
Additions	–	5,588	637	2,032	14,699	450	709	1,464	25,579
Disposals	–	(1,513)	(54)	(81)	(120)	(110)	(3)	–	(1,881)
Transfer	(29)	2,011	42	–	(43)	–	–	(1,981)	–
30 June 2015	**2,002**	**251,849**	**8,889**	**6,194**	**64,455**	**3,208**	**2,006**	**4,050**	**342,653**
Accumulated depreciation									
1 January 2014	**100**	**1,388**	**1,142**	**1,317**	**6,479**	**303**	**122**	**–**	**10,851**
Depreciation charge (unaudited)	15	656	312	342	2,075	113	62	–	3,575
Disposals (unaudited)	–	–	(60)	(72)	(34)	(10)	–	–	(176)
30 June 2014 (unaudited)	**115**	**2,044**	**1,394**	**1,587**	**8,520**	**406**	**184**	**–**	**14,250**
1 January 2015	**135**	**2,631**	**1,520**	**1,737**	**11,295**	**472**	**207**	**–**	**17,997**
Depreciation charge	19	742	358	461	2,550	341	30	–	4,501
Disposals	–	–	–	–	–	(63)	–	–	(63)
Transfers	(2)	51	–	–	–	–	(49)	–	–
30 June 2015	**152**	**3,424**	**1,878**	**2,198**	**13,845**	**750**	**188**	**–**	**22,435**
Net book value									
1 January 2014	**1,931**	**127,830**	**5,030**	**1,104**	**31,807**	**1,201**	**2,361**	**1,317**	**172,581**
30 June 2014 (unaudited)	**1,916**	**175,861**	**5,819**	**1,945**	**35,908**	**1,690**	**2,110**	**1,483**	**226,732**
1 January 2015	**1,896**	**206,634**	**6,427**	**2,504**	**37,721**	**2,290**	**1,093**	**4,373**	**262,938**
30 June 2015	**1,850**	**248,425**	**7,011**	**3,996**	**50,610**	**2,458**	**1,818**	**4,050**	**320,218**

(Thousands of Georgian Lari unless otherwise stated)

11. Property and Equipment (continued)

The Group pledges its office and hospital buildings and assets under construction as collateral for its borrowings. The carrying amount of the buildings and assets under construction pledged as at 30 June 2015 was GEL 250,085 (2014: GEL 212,903).

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 dated 31 December 2013. If the land and office buildings were measured using the cost model, the carrying amounts of the buildings as at 30 June 2015 and 31 December 2014 would be as follows:

	30 June 2015	*31 December 2014*
Cost	1,935	1,935
Accumulated depreciation and impairment	(151)	(133)
Net carrying amount	**1,784**	**1,802**

12. Goodwill and Other Intangible Assets

The movements in goodwill were as follows:

	Goodwill
31 December 2014	**8,415**
Acquisition through business combinations (Note 5)	869
30 June 2015	**9,284**

The Group performs goodwill impairment test annually as at 31 December. The latest impairment test performed by the Group was as at 31 December 2014. The Group did not identify any indicators that goodwill might be impaired as at 30 June 2015.

Other intangible assets comprise of licenses and computer software with carrying value as at 30 June 2015 of GEL 3,441 (2014: GEL 1,708). The Group performs goodwill impairment test annually as at 31 December of each year.

13. Taxation

The corporate income tax expenses comprise:

	30 June 2015	*30 June 2014 (unaudited)*
Current tax charge	682	1,138
Deferred tax benefit– origination and reversal of temporary differences	(735)	(443)
Income tax (benefit) / expense	**(53)**	**695**

Georgian legal entities must file individual tax declarations. The statutory corporate tax rate was 15% in six month period ended 30 June 2015 and 30 June 2014.

The effective income tax rate differs from the statutory income tax rates. Reconciliation of the income tax expense based on statutory rates with actual is as follows:

	30 June 2015	*30 June 2014 (unaudited)*
IFRS income before tax	**13,263**	**6,166**
Statutory tax rate	15%	15%
Theoretical income tax expense at the statutory rate	**1,989**	**925**
Correction of prior year declaration	(1,588)	–
Non-taxable income	(462)	(297)
Non-deductible expenses	8	67
Income tax (benefit)/expense	**(53)**	**695**

(Thousands of Georgian Lari unless otherwise stated)

13. Taxation (continued)

Non-taxable income mainly comprises amount of utilized investment tax credit. Refer to Note 4.

Deferred tax assets and liabilities as at 30 June and their movements for the six-month period then ended comprise:

	1 January 2014	*In the profit or loss (unaudited)*	*Acquired through business combination (unaudited)*	*30 June 2014 (unaudited)*	*1 January 2015*	*In the profit or loss*	*Acquired through business combination*	*30 June 2015*
Tax effect of deductible temporary differences								
Tax loss carried forward	1,329	334	–	1,663	3,135	(243)	–	2,892
Insurance premiums receivables	597	61	–	658	705	30	–	735
Receivable from healthcare services	498	172	–	670	798	261	–	1,059
Borrowings	–	–	–	–	–	184	–	184
Salaries and other benefits	283	88	–	371	433	655	–	1,088
Other assets	142	146	–	288	356	40	–	396
Deferred tax assets	**2,849**	**801**	**–**	**3,650**	**5,427**	**927**	**–**	**6,354**
Tax effect of taxable temporary differences								
Property and equipment	4,428	672	4,000	9,100	12,477	180	5,319	17,976
Insurance contracts liabilities	727	(536)	–	191	6	(38)	–	(32)
Intangible assets	350	(37)	–	313	264	65	–	329
Other liabilities	182	259	–	441	857	(15)	–	842
Deferred tax liabilities	**5,687**	**358**	**4,000**	**10,045**	**13,604**	**192**	**5,319**	**19,115**
Net deferred tax (liability)/asset	**(2,838)**	**443**	**(4,000)**	**(6,395)**	**(8,177)**	**735**	**(5,319)**	**(12,761)**
Deferred income tax assets	**427**	**2,316**	–	**2,743**	**703**	**309**	–	**1,012**
Deferred income tax liabilities	**3,265**	**1,873**	**4,000**	**9,138**	**8,880**	**(426)**	**5,319**	**13,773**

(Thousands of Georgian Lari unless otherwise stated)

13. 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, amongst 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 that are 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.

14. Prepayments

Prepayments comprise:

	30 June 2015	*31 December 2014*
Prepayments for property and equipment and intangible assets	6,271	3,267
Prepayments for operating expenses	3,036	1,608
Total prepayments	**9,307**	**4,875**

15. Other Assets

Other assets comprise:

	30 June 2015	*31 December 2014*
Loans issued	9,764	7,793
Inventory	8,218	7,041
Derivative financial assets	7,011	2,054
Deferred initial public offering transaction costs	1,666	–
Prepaid operating taxes	1,565	1,118
Investment property	1,141	1,138
Deferred acquisition costs	225	242
Other	3,384	2,552
Total other assets, gross	**32,974**	**21,938**
Less – allowance for impairment	(1,467)	(1,115)
Total other assets, net	**31,507**	**20,823**

As at 30 June 2015 and 31 December 2014 loans issued by the Group consist mainly of the loans granted to the Block Georgia Group and Poti Regional Central Hospital. Loans issued are fully collateralized with real estate collateral. The value of pledged collateral exceeds the amount of loans issued.

In the six-month period ended 30 June 2014 the Group entered into a foreign exchange forward contract in order to manage its exposure resulting from fluctuations in foreign currency exchange rates. The notional amount for the contract is USD 17.3 million as at 30 June 2015. Fair value of the contract is GEL 7,011 as at 30 June 2015 (2014: GEL 2,054).

Other section of other assets mainly comprise of rent receivables, receivables from employees and receivables from other non-medical services.

(Thousands of Georgian Lari unless otherwise stated)

16. Insurance Contract Liabilities

Insurance contract liabilities comprise:

	30 June 2015	*31 December 2014*
Insurance contracts liabilities		
- Unearned premiums reserve (UPR)	26,913	14,607
- Reserves for claims reported but not settled (RBNS)	1,693	1,373
- Reserves for claims incurred but not reported (IBNR)	1,536	1,603
Total insurance contracts liabilities	**30,142**	**17,583**

Movements in the insurance contract liabilities during the following periods can be analysed as follows:

	30 June 2015	*31 December 2014*
At 1 January	**17,583**	**50,335**
Premiums written during the period	41,289	42,293
Premiums earned during the period	(27,651)	(72,321)
Claims incurred during the period	20,643	54,270
Claims paid during the period	(21,722)	(56,994)
At 30 June	**30,142**	**17,583**

17. Borrowings

Borrowings comprise:

	30 June 2015	*31 December 2014*
Borrowings from local financial institutions	146,572	148,546
Borrowings from foreign financial institutions	15,242	13,889
Overdrafts from local commercial banks	693	425
Total borrowings	**162,507**	**162,860**

In the six month period ended 30 June 2015 borrowings from local financial institutions had an average interest rate of 12.2% per annum (2014: 11.15%), maturing on average in 1,509 days (2014: 1,906 days). Some borrowings are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. At 30 June 2015 and 31 December 2014 Group complied with all these lender covenants.

18. Accounts Payable

Accounts payable comprise:

	30 June 2015	*31 December 2014*
Accounts payable for healthcare materials and supplies	7,415	6,582
Accounts payable for healthcare services	167	1,021
Other accounts payable	1,994	988
Total accounts payable	**9,576**	**8,591**

19. Debt securities issued

In June 2015 EVEX completed issuance of two-year local bonds of US$15 million (GEL 34.2 million). The bonds were issued at par value with annual coupon rate of 9.5% payable semi-annually.

(Thousands of Georgian Lari unless otherwise stated)

20. Payables for Share Acquisitions

Payables for share acquisitions (also referred to as a "holdback" or an "acquisition holdback") represents outstanding amounts payable for business combinations and acquisition of non-controlling interest in existing subsidiaries.

Payables for business combination is a portion of the total consideration given, payment of which is deferred for a specified period of time in the future and, usually, is contingent upon certain events or conditions precedent or covenants established by the buyer. These conditions are: (i) Audited total equity balance in accordance with IFRS should not be materially different compared to management accounts existing as at the date of deal; (ii) Material unrecorded liability should not be identified; (iii) Any liabilities of the acquiree and/or its related parties towards the acquirer should not remain unpaid for greater than predetermined period after acquisition. Once these conditions precedent are fulfilled, the holdback amount is then paid fully or adjusted, as prescribed in the share purchase agreement for each particular business combination.

As at 30 June 2015 payable for share acquisitions of the Group comprises amounts payable for and deriving from the acquisitions of Tbilisi Emergency Center, Avante Hospital Management Group LLC and Traumatology LLC. As at 31 December 2014 payable for share acquisitions of the Group comprises amounts payable for and deriving from the acquisitions of Avante Hospital Management Group LLC and Traumatology LLC and of the additional interest purchased in JSC My Family Clinic. Outstanding payable for acquisition of additional interest purchased in JSC My Family Clinic as at 31 December 2014 represented GEL 3,727.

21. Other Liabilities

Other liabilities comprise:

	30 June 2015	*31 December 2014*
Payable for purchase of property and equipment	5,593	3,747
Insurance claims payable	5,225	2,745
Operating taxes payable	2,880	1,412
Accrued initial public offering transaction costs	1,671	–
Payable for professional services	498	716
Other	4,707	2,886
Total other liabilities	**20,574**	**11,506**

Other section of other liabilities mainly comprises of payable for office supplies, utilities, communication and fuel.

22. Commitments and Contingencies

Legal

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

Taxation

Georgian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax 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 five calendar years preceding the period 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.

(Thousands of Georgian Lari unless otherwise stated)

22. Commitments and Contingencies (continued)

Financial commitments and contingencies

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

	30 June 2015	*31 December 2014*
Capital commitments	16,716	11,997
Operating lease commitments		
- Not later than 1 year	1,898	990
- Later than 1 year but not later than 5 years	13,187	1,127
Total financial commitments and contingencies	**31,801**	**14,114**

In six month period ended 30 June 2015 as well as in year ended 31 December 2014 capital commitments comprised of construction contracts for hospitals in Samtskhe and the oncology centre in Kutaisi.

23. Equity

On 29 April 2015, upon establishment of GHG, classification of the combined entities' equity captions was aligned with that of GHG. As a result of the transaction the Group's share capital increased by GEL 47,665 while additional paid in capital decreased by the same amount.

In April 2015 the Group obtained convertible loan from BGH in the amount of USD 12 million (GEL 28,280 as of convertion date). In May 2015 the loan was converted to 13,446,125 of GHG shares with par value of GEL 1. The difference of GEL 14,834 between the carrying amount of the converted loan and par value of shares issued was recognized within additional paid-in capital.

	Number of shares
31 December 2014	**28,334,829**
Imedi L and EVEX shares	(28,334,829)
Establishment of GHG	76,000,000
Loan conversion	13,446,125
30 June 2015	**89,446,125**

As at 30 June 2015 the total authorized shares of GHG amounted to 100,000,000 (2014: 28,334,829) at par value of one Georgian Lari of which 89,446,125 were fully paid and 10,553,875 was not issued.

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 six-month periods ended 30 June 2015 and 2014.

Regulatory capital requirements in Georgia are set by the ISSSG and are applied to Imedi L solely on a stand-alone basis. The ISSSG requirement is to maintain a minimum Capital of GEL 1,500, of which 80% should be kept in current accounts. A bank confirmation letter is submitted to ISSSG on a quarterly basis in order to prove compliance with the above-mentioned regulatory requirement. Imedi L regularly and consistently complies with the ISSSG regulatory capital requirement.

(Thousands of Georgian Lari unless otherwise stated)

23. Equity (continued)

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

Gains (losses) from sale/acquisition of shares in existing subsidiaries

This reserve records gains (losses) from sale/acquisition of shares in existing subsidiaries.

In February 2015 JSC Georgia Healthcare Group acquired additional 25% stake in LLC Children New Clinic, an existing subsidiary of which the Group previously owned 75% stake. Acquisition of additional interest in existing subsidiaries in six month period ended 30 June 2015 derives from this transaction. The consideration paid by the Group comprised GEL 2,011 for the purchase of the non-controlling interest of GEL 3,265. The resulting gain from the acquisition was GEL 1,254.

In April 2014 JSC Georgia Healthcare Group acquired additional 49% stake in JSC My Family Clinic, an existing subsidiary of which the Group previously owned by 51%, from Block-Invest LLC. Acquisition of additional interest in existing subsidiaries mostly derives from this transaction. The consideration paid by the Group comprised GEL 29,827 for the purchase of the non-controlling interest of GEL 12,845. The resulting loss from the acquisition was GEL 16,981.

24. Healthcare Services Revenue

	30 June 2015	*30 June 2014 (unaudited)*
Healthcare services revenue from state	65,788	28,279
Healthcare services revenue from out-of-pocket and other	17,095	16,819
Healthcare services revenue from insurance companies	1,512	8,247
Less: corrections & rebates	(1,842)	(908)
Total healthcare services revenue	**82,553**	**52,437**

Healthcare services revenue from state represents the revenue through UHC. A full description of the program is provided in Note 10 above.

25. Net Insurance Premiums Earned

	30 June 2015	*30 June 2014 (unaudited)*
Gross premiums written	41,289	31,837
Change in unearned premiums reserve	(13,638)	11,920
Less: acquisition costs	(1,449)	(1,329)
Total net insurance premiums earned	**26,202**	**42,428**

(Thousands of Georgian Lari unless otherwise stated)

26. Cost of Healthcare Services

	30 June 2015	*30 June 2014 (unaudited)*
Cost of salaries and other employee benefits	(29,569)	(19,333)
Cost materials and supplies	(12,148)	(6,024)
Cost of utilities and other	(3,559)	(2,622)
Cost of providers	(933)	(1,823)
Total cost of healthcare services	**(46,209)**	**(29,802)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment, etc. Indirect salaries that were not included to cost of healthcare services amounted in six month period ended 30 June 2015 to GEL 12,602 (30 June 2014: GEL 9,901) and were presented as a separate line item in profit or loss. Total amount of salaries and other employee benefits recognized as expense in profit or loss in six month period ended 30 June 2015 amounted to GEL 42,171 (30 June 2014: GEL 29,234).

27. Net Insurance Claims Incurred

	30 June 2015	*30 June 2014 (unaudited)*
Insurance claims paid	(21,180)	(35,274)
Change in insurance contract liabilities	1,079	2,120
Net insurance claims incurred	**(20,101)**	**(33,154)**

28. Other Operating Income

Other operating income comprises:

	30 June 2015	*30 June 2014 (unaudited)*
Rental income	257	321
Gain from re-sale of medicines	118	116
Revenues from factoring	51	256
Gain from sale of equipment	33	398
Other	1,237	241
Total other operating income	**1,696**	**1,332**

In the six month period ended 30 June 2015 other caption of other operating income mainly comprised of gain from discounting of zero interest bearing liability from the state to compensate for credit losses incurred as a result of bankruptcy of insurance company Archimede of GEL 420 and gain from reversal of provision of GEL 745.

29. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	30 June 2015	*30 June 2014 (unaudited)*
Salaries and other benefits	(10,662)	(8,363)
Cash bonuses	(1,530)	(1,101)
Share-based compensation	(410)	(437)
Total salaries and other employee benefits	**(12,602)**	**(9,901)**

(Thousands of Georgian Lari unless otherwise stated)

30. General and Administrative Expenses

General and administrative expenses comprise:

	30 June 2015	*30 June 2014 (unaudited)*
Office supplies	(1,146)	(679)
Occupancy, maintenance and rent	(690)	(1,205)
Communication	(464)	(374)
Professional services	(339)	(197)
Representative	(329)	(127)
Repair and maintenance	(221)	(107)
Marketing and advertising	(289)	(522)
Travel	(169)	(118)
Bank fees and commissions	(100)	(130)
Security	(26)	(133)
Other	(1,177)	(620)
Total general and administrative expenses	**(4,950)**	**(4,212)**

In six month period ended 30 June 2015 and 30 June 2014 other general and administrative expenses mainly comprised of training, property tax, property insurance and other operating tax expeneses.

31. Impairment of Healthcare Services, Insurance Premiums and Other Receivables

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

	Insurance receivables	*Receivables from healthcare services and other*	*Total*
1 January 2014	**1,645**	**3,563**	**5,208**
Impairment charge (unaudited)	262	833	1,095
(Write-off)/recovery (unaudited)	(32)	783	751
30 June 2014 (unaudited)	**1,875**	**5,179**	**7,054**
1 January 2015	**2,255**	**6,272**	**8,527**
Impairment charge	109	1,737	1,846
30 June 2015	**2,364**	**8,009**	**10,373**

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

32. Other Operating Expenses

Other operating expenses comprises:

	30 June 2015	*30 June 2014 (unaudited)*
Fixed assets, prepayments and other assets write-off	(569)	(38)
Cost of realized medicine	(99)	(604)
Expense on factoring	(43)	(218)
Loss from equipment sold	(27)	(397)
Cost of realized stationery	(6)	(7)
Other	(411)	(584)
Total other operating expenses	**(1,155)**	**(1,848)**

(Thousands of Georgian Lari unless otherwise stated)

33. Interest Income and Interest Expense

Interest income and interest expense comprise:

	30 June 2015	*30 June 2014 (unaudited)*
Interest income		
Interest income from loan issued	623	538
Interest income from amounts due from credit institutions	600	285
Total interest income	**1,223**	**823**
Interest expense		
Interest expense on borrowings	(11,019)	(6,685)
Interest expense on debt securities issued	(322)	–
Total interest expense	**(11,341)**	**(6,685)**

As at 30 June 2015 the amount of borrowing costs capitalized in relation to quialifying items of property and equipment comprise GEL 652 (30 June 2014: GEL 642).

34. Net Non-Recurring (Expense)/Income

Net non-recurring expense for six month period ended 30 June 2015 comprise:

- GEL 374 expenses on employee dismissal as a result of reorganisation of acquired clinics;
- GEL 365 initial public offering transaction costs;
- GEL 28 loss from other insignificant transactions.

Net non-recurring income for six month period ended 30 June 2014 comprise:

- GEL 1,004 gain from a bargain purchase of Avante management Group LLC;
- GEL 329 gain from disposal of a hospital building owned by Avante Management Group LLC.

35. Share-based Compensation

Abacus Corporate Trustee Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). It was set up by the Group's ultimate parent, BGH and the Group's share-based compensation is reviewed, approved, awarded and then settled by BGH, through the EECP and the Trustee.

During 2015 and 2014 different individuals from the top management of BGH acted as CEO of the Group. Respective individuals are referred to as "the CEO" in the paragraphs that follow.

GHG Plans

In January 2015 the Board of Directors of BGH resolved to award 150,000 ordinary shares of GHG to the CEO of the Group. In April 2015 the Board of Directors of BGH resolved to award 135,000 ordinary shares of GHG to 3 executives. The shares awarded to a four-year vesting period, with continuous employment being the only vesting condition for both awards.

The Group considers 1 January 2015 and 29 April 2015 as the grant date for the awards of CEO and other executives, respectively. The Group estimates that the fair value of the shares awarded was GEL 2.57 per share as of respective grant dates. Respective fair value was estimated using appropriate valuation techniques based on market and income approaches.

BGH Plans

In February 2014 the Board of Directors of BGH resolved to award 18,000 ordinary shares of BGH to the CEO of the Group and 3,150 ordinary shares of BGH to 3 executives. The shares awarded to CEO are subject to a two-year vesting period, while the shares awarded to the other 3 executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 24 February 2014 as the grant date. The Group estimates that the fair value of the shares awarded on 24 February 2014 was GEL 67.90 per share.

(Thousands of Georgian Lari unless otherwise stated)

35. Share-based Compensation (continued)

BGH Plans (continued)

In February 2013 the Board of Directors of BGH resolved to award 20,000 ordinary shares of BGH to the CEO of the Group and 3,000 ordinary shares of BGH to the Group's 2 executives. The shares awarded to the CEO are subject to a two-year vesting period, while the shares awarded to the other 2 executives are subject to a three-year vesting period, with continuous employment being the only vesting condition for both awards. The Group considers 15 February 2013 as the grant date. The Group estimates that the fair value of the shares awarded on 15 February 2013 was GEL 35.56 per share.

Additionally, in February 2013 CEO of the Group signed a new three-year fixed contingent share-based compensation agreements with the Bank for the total of 75,000 ordinary shares of BGH. The total amount of shares fixed to each executive will be awarded in three equal instalments during the three consecutive years starting January 2014, of which each award will be subject to a four-year vesting period. The Group considers 18 February 2013 as the grant date for the awards. The Group estimates that the fair value of the shares on 18 February 2013 was GEL 35.45.

The fair values were identified based on market prices on grant dates.

36. Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current period, revaluation and other reserves and non-controlling interests. 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 as follows:

- To maintain the required level of stability of the Group thereby providing a degree of security to the shareholders as well as insurance policyholders for the insurance arm;
- 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 maintain financial strength to support new business growth and to satisfy the requirements of the shareholders, regulators as well as insurance policyholders for the insurance arm.

Some operations of the Group are subject to local regulatory requirements within the jurisdiction where it operates, currently Georgia only. Such regulations prescribe approval and monitoring of certain activities. They also impose certain restrictive provisions for the insurance arm, such as insurance capital adequacy and the minimal insurance liquidity requirement, to minimize the risk of default and insolvency and to meet unforeseen liabilities as they arise.

During the six month period ended 30 June 2015 and year ended 31 December 2014 the Group complied with all of regulatory requirements as well as insurance capital and insurance liquidity regulations, in full.

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

The Statutory Reserve requirement for Imedi L as at 30 June 2015 equals to the minimal amount of liquid assets of GEL 6,343 (2014: GEL 5,714). The insurance company is fully compliant whih the requirement by holding actual GEL 7,109 (2014: GEL 7,379) of total eligible liquid assets.

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to insurance risk, credit risk, liquidity risk and market risk. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

Management Board

During the six month period ended 30 June 2014 of Aldagi had the responsibility to monitor and manage entire risk process within the respective GHG components on a regular basis, by assigning tasks, creating different executive committees, designing and setting up risk management policies and procedures as well as respective guidelines and controlling their implementation and performance of relevant departments and committees. During the six month period ended June 2015, these functions were carried out by management of the Group.

Internal Audit

During the six month period ended 30 June 2014 period risk management processes throughout the Group were audited annually by the internal audit function of Aldagi that examined both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Board. During the six month period ended 30 June 2015, these functions were carried out by internal audit function of the Group.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on different forecasting models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group runs three different basic scenarios, of which one is the Base Case (forecast under normal business conditions) and the other two are the Troubled and Distressed Scenarios, which are worse and the worst-case scenarios, respectively, that would arise in the event that extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The reports include aggregate receivables exposures and credit exposures, their limits, exceptions to those limits, insurance contract liability positions and their limits, liquidity ratios and liquidity limits, market risk ratios and their limits, and changes to the risk profile. Senior management assesses the appropriateness of the levels of liquidity, credit positions, receivables positions and allowance for impairment on a monthly basis. The Management Board receives a comprehensive risk report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures to net currency position, insurance liabilities risks, interest rates and credit risks.

The Group actively uses a collective financial responsibility approach to individual healthcare customers arising from the provision of healthcare services to out-of-pocket customers, to manage the respective individual debtors arising from helthacare services falling out of the scope of the UHC.

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Insurance risk

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

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

	30 June 2015	*30 June 2014 (unaudited)*
Loss ratio	83.0%	88.5%
Combined ratio	97.7%	99.2%

The Group issues the following types of insurance contracts: health, term life bundled with health, personal accident and travel insurance. The table below sets out concentration of insurance contract liabilities by type of contract:

	30 June 2015	*31 December 2014*
Healthcare	2,437	2,481
Term Life	586	348
Travel	201	146
Personal accident	5	1
Total	**3,229**	**2,976**

For these insurance contracts the most significant risks arise from lifestyle changes, epidemic as well as changes in loss frequency 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 above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. 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.

Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time. The table shows reserves for both, claims reported as well as claims incurred but not yet reported, and cumulative payments. Claims estimates are translated into Georgian Lari at the rate of exchange that applied at the end of the accident period:

Accident period	*30 June 2015*	*31 December 2014*	*31 December 2013*
At the end of accident period	23,330	58,190	87,734
One year later	–	58,209	87,929
Two years later	–	–	87,929
Three years later	–	–	–
Current estimation of cumulative claims incurred	**23,330**	**58,209**	**87,929**
At the end of accident period	(20,101)	(55,225)	(79,100)
One year later	–	(58,180)	(87,835)
Two years later	–	–	(87,835)
Three years later	–	–	–
Cumulative payments to date	**(20,101)**	**(58,180)**	**(87,835)**
Outstanding claims provision per balance sheet	**3,229**	**29**	**94**
Current estimation of surplus (deficit)		**(19)**	**(195)**
% of surplus (deficit) to initial gross reserve		**-0.03%**	**-0.22%**

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Credit risk

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

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

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group based on number of overdue days. The table below shows the credit quality by class of asset in the statement of financial position.

	Notes	*Neither past due nor impaired 30 June 2015*	*Past-due but not impaired 30 June 2015*	*Impaired 30 June 2015*	*Total 30 June 2015*
Amounts due from credit institutions	8	16,270	–	–	16,270
Receivables from healthcare services	10	29,029	7,564	23,396	59,989
Loans issued	15	–	9,764	–	9,764
Derivative financial assets	15	7,011	–	–	7,011
Total		**52,310**	**17,328**	**23,396**	**93,034**

	Notes	*Neither past due nor impaired 31 December 2014*	*Past-due but not impaired 31 December 2014*	*Impaired 31 December 2014*	*Total 31 December 2014*
Amounts due from credit institutions	8	13,954	–	–	13,954
Receivables from healthcare services	10	31,836	6,540	10,046	48,422
Loans issued	15	–	7,793	–	7,793
Derivative financial assets	15	2,054	–	–	2,054
Total		**47,844**	**14,333**	**10,046**	**72,223**

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days or are overdue more than 30 days but have not been impaired due to objective reasons. Those receivables and financial assets that are overdue for more than 30 days are considered as impaired. The Group does not have a credit rating system to evaluate impaired loans. Therefore, impairment charges and allowance are based on the number of days overdue and the history of past performance by each time bucket of overdue exposures.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a regular basis. This incorporates daily monitoring of expected cash flows and liquidity needs.

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

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Liquidity risk and funding management (continued)

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.

30 June 2015	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	25,484	–	25,484
Amounts due from credit institutions	16,270	–	16,270
Insurance premiums receivables	31,914	–	31,914
Receivables from healthcare services	53,447	–	53,447
Prepayments	3,035	6,272	9,307
Property and equipment	–	320,218	320,218
Goodwill and other intangible assets	–	12,725	12,725
Current income tax assets	2,208	–	2,208
Deferred income tax assets	–	1,012	1,012
Other assets	30,366	1,141	31,507
Total assets	**162,724**	**341,368**	**504,092**
Liabilities			
Accounts payable	9,576	–	9,576
Accruals for employee compensation	12,981	–	12,981
Payable for share acquisitions	2,473	–	2,473
Insurance contract liabilities	30,142	–	30,142
Debt securities issued	160	32,852	33,012
Borrowings	30,668	131,839	162,507
Current income tax liabilities	5,329	–	5,329
Deferred income tax liabilities	–	13,773	13,773
Other liabilities	20,574	–	20,574
Total liabilities	**111,903**	**178,464**	**290,367**
Net position	**50,821**	**162,904**	**213,725**
Accumulated gap	**50,821**	**213,725**	

31 December 2014	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	32,784	–	32,784
Amounts due from credit institutions	13,954	–	13,954
Insurance premiums receivables	17,673	–	17,673
Receivables from healthcare services	43,265	–	43,265
Prepayments	1,608	3,267	4,875
Property and equipment	–	262,938	262,938
Goodwill and other intangible assets	–	10,123	10,123
Current income tax assets	2,139	–	2,139
Deferred income tax assets	–	703	703
Other assets	19,685	1,138	20,823
Total assets	**131,108**	**278,169**	**409,277**
Liabilities			
Accounts payable	8,591	–	8,591
Accruals for employee compensation	9,740	–	9,740
Payable for share acquisitions	13,165	–	13,165
Insurance contract liabilities	17,583	–	17,583
Borrowings	34,745	128,115	162,860
Current income tax liabilities	4,641	–	4,641
Deferred income tax liabilities	–	8,880	8,880
Other liabilities	11,506	–	11,506
Total liabilities	**99,971**	**136,995**	**236,966**
Net position	**31,137**	**141,174**	**172,311**
Accumulated gap	**31,137**	**172,311**	

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Liquidity risk and funding management (continued)

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

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

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

30 June 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Accounts payable	9,576	–	–	–	9,576
Accruals for employee compensation	12,981	–	–	–	12,981
Debt securities issued	–	3,204	36,928	–	40,132
Borrowings	12,464	20,941	134,414	28,160	195,979
Other financial liabilities	11,316	–	–	–	11,316
Total undiscounted financial liabilities	**46,337**	**24,145**	**171,342**	**28,160**	**269,984**

31 December 2014	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Accounts payable	8,591	–	–	–	8,591
Accruals for employee compensation	9,740	–	–	–	9,740
Borrowings	12,547	33,926	136,592	29,756	212,821
Other financial liabilities	7,446	–	–	–	7,446
Total undiscounted financial liabilities	**38,324**	**33,926**	**136,592**	**29,756**	**238,598**

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 exchange rates.

The Group has exposure to market risks. The Group structures the levels of market risk it accepts through a Group market risk policy that determines what constitutes market risk for the Group.

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 Group has floating interest rate borrowing linked to Libor and NBG short-term loan refinancing rates and is therefore exposed to interest rate risk.

	30 June 2015		*31 December 2014*	
	GEL	**USD**	**GEL**	**USD**
Amounts due from credit institutions	9.97%	7.36%	9.95%	7.20%
Borrowings	12.54%	9.61%	10.63%	12.71%

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity of the consolidated profit or loss is the effect of the assumed changes in interest rates on the interest expense for the period. During six-month periods ended 30 June 2015 and 2014 sensitivity analysis did not reveal any significant potential effect on the Group's equity. The following table demonstrates sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's consolidated profit or loss:

Currency	*Increase in basis points 30 June 2015*	*Sensitivity of interest expense 30 June 2015*
USD	+0.09%	69
GEL	+1.00%	1,193

Currency	*Decrease in basis points 30 June 2015*	*Sensitivity of interest expense 30 June 2015*
USD	-0.09%	(69)
GEL	-1.00%	(1,193)

(unaudited) Currency	*Increase in basis points 30 June 2014*	*Sensitivity of interest expense 30 June 2014*
USD	+0.12%	47
GEL	+1.00%	871

(unaudited) Currency	*Decrease in basis points 30 June 2014*	*Sensitivity of interest expense 30 June 2014*
USD	-0.12%	(47)
GEL	-1.00%	(871)

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 Group's principal transactions are carried out in Georgian Lari and its exposure to foreign exchange risk arises primarily with respect to U.S. Dollars.

The Group's financial assets are primarily denominated in the same currencies as its liabilities, which is the functional currency of the Group entities – Lari. Most of the Group's operations are denominated in Lari too. This fact mitigates the foreign currency exchange rate risk operationally. The main foreign exchange risk arises from U.S. Dollars denominated borrowings that are partially hedged through cash deposits with banks, also denominated in U.S. Dollars and the foreign currency swap contracts with the Group's counterparties.

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

The tables below indicate the currencies to which the Group had significant exposure at 30 June 2015 and 31 December 2014 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss, while a positive amount reflects a net potential increase.

	30 June 2015			
	GEL	*USD*	*EUR*	*Total*
Assets				
Cash and cash equivalents	3,055	22,429	–	25,484
Amounts due from credit institutions	5,767	10,503	–	16,270
Receivables from healthcare services	53,447	–	–	53,447
Loans issued	450	9,314	–	9,764
Total monetary assets	**62,719**	**42,246**	**–**	**104,965**
Liabilities				
Accounts payable	9,576	–	–	9,576
Payable for share acquisitions	2,473	–	–	2,473
Insurance contract liabilities	29,684	181	277	30,142
Debt securities issued	–	33,012	–	33,012
Borrowings	119,315	43,192	–	162,507
Other liabilities	20,076	498	–	20,574
Total monetary liabilities	**181,124**	**76,883**	**277**	**258,284**
Net monetary position, before derivatives	**(118,405)**	**(34,637)**	**(277)**	**(153,319)**
Derivative financial instruments	(31,210)	38,221	–	7,011
Net monetary position including derivatives	**(149,615)**	**3,584**	**(277)**	**(146,308)**
% Increase in currency exchange rate		**+22.68%**	**+12.2%**	
Effect on profit before income tax expense		**813**	**(34)**	
% Decrease in currency exchange rate		**-22.68%**	**-12.2%**	
Effect on profit before income tax expense		**(813)**	**34**	

	31 December 2014			
	GEL	*USD*	*EUR*	*Total*
Assets				
Cash and cash equivalents	4,403	28,340	41	32,784
Amounts due from credit institutions	5,528	8,426	–	13,954
Receivables from healthcare services	43,265	–	–	43,265
Loans issued	–	7,793	–	7,793
Total monetary assets	**53,196**	**44,559**	**41**	**97,796**
Liabilities				
Accounts payable	8,591	–	–	8,591
Payable for share acquisitions	13,165	–	–	13,165
Insurance contract liabilities	17,082	190	311	17,583
Borrowings	119,986	42,874	–	162,860
Other liabilities	10,922	584	–	11,506
Total monetary liabilities	**169,746**	**43,648**	**311**	**213,705**
Net monetary position, before derivatives	**(116,550)**	**911**	**(270)**	**(115,909)**
Derivative financial instruments	(37,082)	39,136	–	2,054
Net monetary position including derivatives	**(153,632)**	**40,047**	**(270)**	**(113,855)**
% Increase in currency exchange rate		**+23.4%**	**+1.9%**	
Effect on profit before income tax expense		**9,371**	**(5)**	
% Decrease in currency exchange rate		**-23.4%**	**-1.9%**	
Effect on profit before income tax expense		**(9,371)**	**5**	

As part of its risk management, the Group uses foreign exchange forward contracts to manage exposures resulting from changes in foreign currency exchange rates.

(Thousands of Georgian Lari unless otherwise stated)

37. Risk Management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

The Group's business in concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets (including the risk that the Georgian Lari is not freely convertible outside the country, and undeveloped debt and equity markets). However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation (including new Tax Code and procedural laws). In the view of the Board, these steps contribute to mitigate the risks of doing business in Georgia.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

38. 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. It also includes 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:

	Level 1	*Level 2*	*Level 3*	*Total fair value 30 June 2015*	*Carrying value 30 June 2015*	*Unrecog-nised gain (loss) 30 June 2015*
Assets measured at fair value						
Property and equipment	–	–	1,850	**1,850**	1,850	–
Other assets: derivative financial assets	–	7,011	–	**7,011**	7,011	–
Other assets: investment property	–	–	1,141	**1,141**	1,141	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	25,484	–	**25,484**	25,484	–
Amounts due from credit institutions	–	–	16,270	**16,270**	16,270	–
Receivables from healthcare services	–	–	53,447	**53,447**	53,447	–
Other assets: loans issued	–	–	9,764	**9,764**	9,764	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	163,193	**163,193**	163,193	–

(Thousands of Georgian Lari unless otherwise stated)

38. Fair Values Measurements (continued)

Fair value hierarchy (continued)

	Level 1	*Level 2*	*Level 3*	*Total fair value 31 December 2014*	*Carrying value 31 December 2014*	*Unrecog-nised gain (loss) 31 December 2014*
Assets measured at fair value						
Property and equipment	–	–	1,896	**1,896**	1,896	–
Other assets: derivative financial assets	–	2,054	–	**2,054**	2,054	–
Other assets: investment property	–	–	1,138	**1,138**	1,138	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	32,784	–	**32,784**	32,784	–
Amounts due from credit institutions	–	–	13,954	**13,954**	13,954	–
Receivables from healthcare services	–	–	43,265	**43,265**	43,265	–
Other assets: loans issued	–	–	7,793	**7,793**	7,793	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	162,860	**162,860**	162,860	–

The following is a description of the determination of fair value for financial instruments and property that 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.

Property and equipment, investment property

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

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

Level 3 property at fair value

	30 June 2015	*Valuation technique*	*Significant unobservable inputs*	*Amount*	*Other key information*	*Area*	*Sensitivity of the input to fair value*
Investment property	**1,141**						
	1,141	Market approach	Price per square metre	1,919	Square metres, building	593	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 114

	30 June 2015	*Valuation technique*	*Significant unobservable inputs*	*Range*	*Other key information*	*Range*	*Sensitivity of the input to fair value*
Property and equipment	**1,850**						
	1,653	Market approach	Price per square metre	2,057-2,284	Square metres, building	211; 619	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 168
	197	Cost approach	Replacement cost per square metre	188	Square metres, building	1,327	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 20
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price pet square metre	5	Square metres, land	5,782	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 1

(Thousands of Georgian Lari unless otherwise stated)

38. Fair Values Measurements (continued)

Fair value hierarchy (continued)

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

	31 December 2014	Valuation technique	Significant unobservable inputs	Amount	Other key information	Area	Sensitivity of the input to fair value
Investment property	**1,138**						
	1,138	Market approach	Price per square metre	1,919	Square metres, building	593	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 114

	31 December 2014	Valuation technique	Significant unobservable inputs	Range	Other key information	Range	Sensitivity of the input to fair value
Property and equipment	**1,896**						
	1,653	Market approach	Price per square metre	2,057-2,284	Square metres, building	211; 619	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 168
	243	Cost approach	Replacement cost per square metre	188	Square metres, building	1,327	10% increase (decrease) in the replacement cost per square metre would result in increase (decrease) in fair value by GEL 24
			Developers' profit margin	10%			1% increase (decrease) in the developers' profit margin would result in increase (decrease) in fair value by GEL 2
			Land price pet square metre	5	Square metres, land	5,782	10% increase (decrease) in the price per square metre would result in increase (decrease) in fair value by GEL 1

The following describes the methodologies and assumptions used to determine fair values for those financial instruments that are not already recorded at fair value in the interim 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 their fair value. This assumption is also applied to variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on a discounted cash flow analysis using prevailing money-market interest rates for debts with similar credit risk and maturity.

39. Related Party Transactions

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

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

(Thousands of Georgian Lari unless otherwise stated)

39. Related Party Transactions (continued)

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

	30 June 2015		*31 December 2014*	
	Parent	*Entities under common control**	*Parent*	*Entities under common control**
Assets				
Cash and cash equivalents	24,270	–	31,468	7
Amounts due from credit institutions	9,466	–	6,740	–
Insurance premiums receivable	158	255	747	241
Other assets: derivative financial assets	–	7,011	–	2,054
Other assets	3	3,574	162	425
	33,897	**7,709**	**39,117**	**2,727**
Liabilities				
Borrowings	89,523	4,585	89,769	2,980
Insurance contract liabilities	121	220	733	88
Accounts payable	745	127	813	335
	90,389	**4,932**	**91,315**	**3,403**

	30 June 2015		*30 June 2014 (unaudited)*	
	Parent	*Entities under common control**	*Parent*	*Entities under common control**
Income and expenses				
Net insurance premiums earned	954	138	835	113
General and administrative expenses	(384)	(39)	(231)	(12)
Interest income	378	–	–	132
Interest expense	(5,870)	(208)	(2,911)	(217)
Other operating income	–	142	–	–
Other operating expenses	–	(175)	(318)	(51)
	(4,922)	**(142)**	**(2,625)**	**(35)**

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

Compensation of key management personnel comprised the following:

	30 June 2015	*30 June 2014 (unaudited)*
Salaries and cash bonuses	973	668
Share-based compensation	410	460
Total key management compensation	**1,383**	**1,128**

40. Events After Reporting Period

In June 2015 the Group signed a binding memorandum of understanding, subject to relevant regulatory approvals, to acquire 50.0% of equity interest in GNCo, with effective management and operational control over the company. GNCo is a holding company that owns 100% of High Technology Medical University Center ("HTMC"), a 450 bed referral hospital in Tbilisi, which provides a wide range of in-patient and out-patient services. In July 2015, the Group received approval from regulatory body and in August 2015 signed share purchase agreement with total consideration amounting to USD 17 million (GEL 34.3 million).