JSC Georgia Healthcare Group

Combined Financial Statements

For the year ended 31 December 2014
Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholder and the Management Board of JSC "Georgia Healthcare Group"

We have audited the accompanying combined financial statements of JSC "Insurance Company Imedi L" and its subsidiaries and JSC "Medical Corporation EVEX" and its subsidiaries, together referred to as "the Group", which comprise the combined statement of financial position as at 31 December 2014, and the combined income statement, combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY Georgia LLC

26 June 2015

COMBINED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	2014	2013	2012	As at 1 January 2012
ASSETS					
Cash and cash equivalents	7	32,784	4,471	8,398	1,551
Amounts due from credit institutions	8	13,954	8,606	8,816	2,286
Insurance premiums and reinsurance receivables	9	17,673	48,910	52,637	12,898
Receivables from healthcare services	10	43,814	13,543	7,630	4,587
Property and equipment	11	262,938	172,581	148,954	66,323
Goodwill and other intangible assets	12	10,123	8,846	4,783	4,262
Current income tax assets		2,139	938	90	409
Deferred income tax assets	13	703	427	521	361
Prepayments	14	4,875	4,919	8,942	5,518
Other assets	15	20,274	16,291	17,318	11,017
Total assets		**409,277**	**279,532**	**258,089**	**109,212**
LIABILITIES					
Borrowings	17	162,860	105,242	91,161	17,090
Insurance contract liabilities	16	17,583	50,335	57,050	15,843
Payables for share acquisitions	19	13,694	454	1,374	5,939
Accounts payable	18	8,081	5,901	6,596	5,493
Accruals for employee compensation		9,740	6,667	5,500	3,457
Current income tax liabilities		4,641	1,517	757	–
Deferred income tax liabilities	13	8,880	3,265	3,098	1,701
Other liabilities	20	11,487	7,425	10,682	21,593
Total liabilities		**236,966**	**180,806**	**176,218**	**71,116**
EQUITY					
Share capital	22	28,335	13,686	13,686	6,485
Additional paid-in capital	22	99,138	34,317	33,765	9,366
Other reserves	22	(16,543)	438	356	356
Retained earnings		35,869	25,662	16,240	7,255
Total equity attributable to shareholders of the Group		**146,799**	**74,103**	**64,047**	**23,462**
Non-controlling interests		25,512	24,623	17,824	14,634
Total equity		**172,311**	**98,726**	**81,871**	**38,096**
Total equity and liabilities		**409,277**	**279,532**	**258,089**	**109,212**

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

26 June 2015

COMBINED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	*2014*	*2013*	*2012*
Healthcare services revenue	23	126,884	62,638	49,450
Net insurance premiums earned	24	69,448	102,963	69,914
Revenue		**196,332**	**165,601**	**119,364**
Cost of healthcare services	25	(71,803)	(33,062)	(30,041)
Net insurance claims incurred	26	(54,263)	(75,513)	(45,596)
Costs of services		**(126,066)**	**(108,575)**	**(75,637)**
Gross profit		**70,266**	**57,026**	**43,727**
Other operating income	27	2,875	2,912	3,099
Salaries and other employee benefits	28	(19,804)	(13,613)	(13,729)
General and administrative expenses	29	(9,449)	(6,480)	(5,434)
Impairment of healthcare services, insurance premiums and other receivables	30	(5,134)	(3,470)	(2,613)
Other operating expenses	31	(1,892)	(1,331)	(1,740)
Operating expenses		**(36,279)**	**(24,894)**	**(23,516)**
EBITDA		**36,862**	**35,044**	**23,310**
Depreciation and amortization	11, 12	(7,630)	(5,901)	(3,824)
Interest income	32	1,532	1,459	2,372
Interest expense	32	(14,338)	(10,928)	(7,397)
Net losses from foreign currencies		(2,494)	(4,045)	(507)
Net non-recurring income	33	578	–	–
Profit before income tax expense		**14,510**	**15,629**	**13,954**
Income tax expense	13	(1,246)	(2,255)	(1,779)
Profit for the year		**13,264**	**13,374**	**12,175**
Attributable to:				
– shareholders of the Group		10,207	9,422	8,985
– non-controlling interests		3,057	3,952	3,190

COMBINED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Profit for the year		**13,264**	**13,374**	**12,175**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
- Revaluation of property and equipment	11	–	97	–
- Income tax benefit relating to components of other comprehensive income		–	(15)	–
Other comprehensive income not to be reclassified to profit or loss, net of tax		**–**	**82**	**–**
Total comprehensive income for the year		**13,264**	**13,456**	**12,175**
Attributable to:				
- shareholders of the Group		10,207	9,504	8,985
- non-controlling interests		3,057	3,952	3,190

COMBINED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	*Attributable to the shareholders of the Group*						
		Share Capital	*Additional Paid-in Capital*	*Other Reserves*	*Retained Earnings*	*Total*	*Non-controlling Interest*	*Total Equity*
1 January 2012		**6,485**	**9,366**	**356**	**7,255**	**23,462**	**14,634**	**38,096**
Profit for the year		–	–	–	8,985	8,985	3,190	12,175
Total comprehensive income		**–**	**–**	**–**	**8,985**	**8,985**	**3,190**	**12,175**
Issue of share capital		7,201	24,212	–	–	31,413	–	31,413
Share-based compensation		–	187	–	–	187	–	187
31 December 2012		**13,686**	**33,765**	**356**	**16,240**	**64,047**	**17,824**	**81,871**
Profit for the year		–	–	–	9,422	9,422	3,952	13,374
Other comprehensive income		–	–	82	–	82	–	82
Total comprehensive income		**–**	**–**	**82**	**9,422**	**9,504**	**3,952**	**13,456**
Increase of non-controlling interest in existing subsidiaries		–	–	–	–	–	2,847	2,847
Share-based compensation		–	552	–	–	552	–	552
31 December 2013		**13,686**	**34,317**	**438**	**25,662**	**74,103**	**24,623**	**98,726**
Profit for the year		–	–	–	10,207	10,207	3,057	13,264
Total comprehensive income		**–**	**–**	**–**	**10,207**	**10,207**	**3,057**	**13,264**
Issue of share capital		14,649	64,030	–	–	78,679	–	78,679
Acquisition of additional interest in existing subsidiaries	22	–	–	(16,981)	–	(16,981)	(13,024)	(30,005)
Non-controlling interests arising from business combinations	5	–	–	–	–	–	10,856	10,856
Share-based compensation		–	791	–	–	791	–	791
31 December 2014		**28,335**	**99,138**	**(16,543)**	**35,869**	**146,799**	**25,512**	**172,311**

COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

(Thousands of Georgian Lari)

	Notes	2014	2013	2012
Cash flows from operating activities				
Healthcare services revenue received		100,037	49,826	44,225
Cost of healthcare services paid		(75,474)	(30,510)	(28,221)
Net insurance premiums received		72,398	103,674	68,869
Net insurance claims paid		(56,544)	(80,028)	(53,296)
Salaries and other employee benefits paid		(18,540)	(13,857)	(15,530)
General and administrative expenses paid		(10,972)	(6,018)	(7,369)
Acquisition costs paid		(2,702)	(3,105)	(2,006)
Operating taxes paid		1,400	(1,524)	(71)
Other operating income received		3,726	603	2,116
Other operating expenses paid		(2,556)	(1,130)	(213)
Net cash flows from operating activities before income tax		**10,773**	**17,931**	**8,504**
Income tax paid		(2,327)	(1,911)	(946)
Net cash flows from operating activities		**8,446**	**16,020**	**7,558**
Cash flows from (used in) investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(22,631)	(3,478)	(9,513)
Acquisition of additional interest in existing subsidiaries	22	(30,005)	–	–
Purchase of property and equipment		(30,006)	(12,385)	(60,867)
Purchase of intangible assets		(430)	(71)	(340)
Interest income received		244	696	2,047
Loans issued		–	–	(1,849)
Withdrawals and redemptions of amounts due from credit institutions		–	1,219	15,974
Placements of amounts due from credit institutions		(5,348)	(1,000)	(12,807)
Proceeds from sale of property and equipment		2,158	1,195	2,556
Net cash used in investing activities		**(86,018)**	**(13,824)**	**(64,799)**
Cash flows from (used in) financing activities				
Proceeds from issuance of ordinary shares		78,679	–	31,413
Proceeds from borrowings		66,099	20,741	44,662
Repayment of borrowings		(20,491)	(16,708)	(5,978)
Purchase of derivative financial assets		–	(1,158)	–
Interest expense paid		(18,363)	(9,016)	(5,966)
Net cash flows from (used in) financing activities		**105,924**	**(6,141)**	**64,131**
Effect of exchange rates changes on cash and cash equivalents		(39)	18	(43)
Net increase (decrease) in cash and cash equivalents		**28,313**	**(3,927)**	**6,847**
Cash and cash equivalents, beginning	7	**4,471**	**8,398**	**1,551**
Cash and cash equivalents, end	7	**32,784**	**4,471**	**8,398**

The accompanying notes on pages 6 to 62 are an integral part of these combined 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, together referred to as "Georgia Healthcare Group" ("GHG" or "the Group"), from the property and casualty insurance business. The Group has not been registered as a legal entity as at the reporting date.

As a result of first stage of the reorganization, on 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").

As at 31 December 2014, 2013 and 2012 the ultimate parent of GHG components is Bank of Georgia Holdings plc ("BGH").

In the course of the second stage of the reorganization commenced after the reporting date, BGH's stakes in Imedi L and EVEX have been transferred to a newly established JSC "Georgia healthcare group" ("Georgia Healthcare Group" or "GHG") that is ultimately owned by BGH.

Consequently, as at the date when these financial statements are authorised for release, Imedi L and EVEX are the subsidiaries of GHG. As the second stage of the reorganization was not completed as at reporting date, Imedi L and EVEX Group are referred to as "combined entities" or "GHG components" for the purpose of these combined financial statements. Refer to Note 38.

As at 31 December GHG components have the following shareholders:

Shareholder	***2014***	***2013***	***2012***
JSC Bank of Georgia	88%	76%	76%
JSC Galt & Taggart Holdings	12%	24%	24%
Total	**100%**	**100%**	**100%**

As at 31 December the Group included the following subsidiaries incorporated in Georgia:

	Ownership/Voting					
Subsidiary	***2014***	***2013***	***2012***	***Industry***	***Date of incorporation***	***Date of acquisition***
JSC Insurance Company Aldagi	–	Parent	Parent	Insurance	11-Aug-98	Not Applicable
JSC My Family Clinic	100%	51%	51%	Healthcare	3-Oct-05	Not Applicable
JSC St. Nicholas Surgery Clinic	93%	81%	72%	Healthcare	10-Nov-00	20-May-08
Imereti Regional Clinical Hospital LLC	100%	100%	100%	Healthcare	19-Jul-10	24-Sep-10
JSC Zugdidi multi profile Clinical Hospital "Republic"	100%	100%	100%	Healthcare	19-Oct-99	29-Nov-11
JSC Kutaisi County Treatment and Diagnostic Center for Mothers and Children	67%	67%	67%	Healthcare	5-May-03	29-Nov-11
JSC Chkhorotskhu Regional Central Hospital	100%	100%	100%	Healthcare	30-Nov-99	29-Nov-11
Academician Z. Tskhakaia National Center of Intervention Medicine of Western Georgia, LTD	67%	67%	67%	Healthcare	15-Oct-04	29-Nov-11
E.K. Pipia Central Hospital of Tsalenjikha, LTD	100%	100%	100%	Healthcare	1-Sep-99	29-Nov-11
Martvili Multi profile Hospital, LTD	100%	100%	100%	Healthcare	17-Mar-00	29-Nov-11
Abasha Outpatient-Polyclinic Union, LTD	100%	100%	100%	Healthcare	16-Mar-00	29-Nov-11
Tskaltubo Regional Hospital, LTD	67%	67%	67%	Healthcare	29-Sep-99	29-Nov-11
Khobi Central Regional Hospital, LTD	100%	100%	100%	Healthcare	13-Jul-00	29-Nov-11
Imedi L Dent, LLC *	–	–	100%	Healthcare	17-Jan-05	30-Apr-12
Unimed Achara, LLC	100%	100%	100%	Healthcare	29-Jun-10	30-Apr-12
Unimedi Samtskhe, LLC	100%	100%	100%	Healthcare	29-Jun-10	30-Apr-12
Unimedi Kakheti, LLC	100%	100%	100%	Healthcare	29-Jun-10	30-Apr-12
Caraps Medline, LLC	100%	100%	–	Healthcare	26-Aug-98	26-Dec-13
Medline+, LLC	–	100%	–	Healthcare	13-Dec-07	30-Dec-13
EVEX Learning Center, NPO	100%	100%	–	Other	20-Dec-13	20-Dec-13
Biznes Centri Kazbegze, LLC	100%	100%	100%	Other	22-Jun-10	24-Aug-11
JSC Medical Corporation EVEX	100%	–	–	Healthcare	1-Aug-14	1-Aug-14
SunStone Medical, LTD	100%	–	–	Healthcare	9-Nov-12	21-May-14
M. Iashvili Children Central Hospital, LTD	67%	–	–	Healthcare	3-May-11	19-Feb-14
Avante Hospital Management Group, LTD	100%	–	–	Healthcare	5-Aug-11	19-Feb-14
Children New Clinic, LTD	75%	–	–	Healthcare	18-Jul-11	19-Feb-14
New Life, LTD	100%	–	–	Healthcare	21-Sep-99	19-Feb-14
Batumi Mother and Children Healthcare Center, LTD	100%	–	–	Healthcare	19-Nov-04	19-Feb-14
Traumatology, LLC	100%	–	–	Healthcare	20-Jul-11	30-Sep-14

(Thousands of Georgian Lari unless otherwise stated)

1. Background (continued)

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 EVEX and Imedi L are No. 40 Vazha-Pshavela Avenue and No. 3-5 Kazbegi Street, respectively. Both companies are incorporated in Georgia.

The period starting from 1 January 2012 to 1 August 2014 is herein referred to as "the pre-split period", the remaining part of 2014 is "the post-split period".

First time adoption of International Financial Reporting Standards

These combined financial statements, for the year ended 31 December 2014, are the first the combined entities have prepared in accordance with IFRS. Accordingly, these combined financial statements have been prepared to comply with IFRS applicable at the end of its first reporting period, being 31 December 2014, together with the comparative period data as at and for the years ended 31 December 2013 and 2012. No financial statements were prepared in accordance with previous GAAP.

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS

Basis of preparation

In August 2014 the management of the Aldagi group began the preparation for listing of GHG's ordinary shares in the Premium segment of London Stock Exchange. In the view of the listing and in order to reflect the effects of reorganization through the separation of the property and casualty insurance business segment, Aldagi Group prepared these combined financial statements for the year ended 31 December 2014. Pre-split financial information for each of the combined entities was prepared based on principles disclosed below.

Basis of combination

These combined financial statements have 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 2014. These 2014 combined financial statements include carve-out information for Imedi L for the pre-split period as well as comparative information for EVEX Group for the pre-split period prepared based on the principles described below.

Intercompany transactions and assets and liabilities between components of GHG have been eliminated. Intercompany transactions with entities comprising the Aldagi group after the first stage of reorganization have been treated as transactions with related parties.

Statement of compliance

These combined financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS (continued)

Basis of preparation (continued)

General

These combined financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business, and under the historical cost convention, except for investment properties, land and office buildings and derivatives which are carried at fair value. These combined financial statements have been presented in thousands of Georgian Lari (GEL), except otherwise stated.

Imedi L historical information

Up to the split date, Imedi L represented a portion of Aldagi's business and does not constitute a separate legal entity. Therefore for the purposes of these combined financial statements individual financial statements of Imedi L (historical financial information for the pre-split period) is considered to be a continuation of the financial information related to Aldagi's medical insurance business. The historical financial information of Imedi L included in these combined financial statements has been prepared by splitting the financial statements of Aldagi into the medical insurance segment (Imedi L) and the property and casualty insurance segment based on the criteria and assumptions further discussed in this note assuming that Imedi L's date of transition to IFRS is the initial date of transition to IFRS of Aldagi.

The Group applied the same criteria and assumptions to allocate the assets and liabilities as at the split date, 1 August 2014.

Insurance premiums receivables, insurance contract liabilities, claims payable, net insurance premiums earned and net claims incurred

All insurance related items in the combined statement of financial position and combined income statement of Aldagi Group have been split according to the type of underlying insurance products in a following way:

- Health, term life insurance products bundled with medical insurance, personal accident and travel insurance products comprised the medical insurance segment thus included in historical financial information of Imedi L for the pre-split period;
- Insurance products related to the property and casualty business segment have been excluded from the historical financial information of Imedi L for the pre-split period.

Respective line items in the combined statement of financial position and combined income statement have been split on a per insurance contract basis.

Cash and cash equivalents, amounts due from credit institutions and related interest income

Cash and cash equivalents and amounts due from credit institutions are mainly used to meet the minimum capital and reserve requirements set by the Insurance State Supervision Service of Georgia ("ISSSG"). Insurance reserves to be held by each segment were calculated based on the respective insurance contracts liabilities and insurance receivables. Cash and cash equivalents and amounts due from credit institutions were then split in a way that would allow each insurance segment to meet the regulatory requirements mentioned above.

Loans and other receivables, excluding insurance receivables, and related interest income

Loans issued to subsidiaries operating in the healthcare industry and parts of other loans used to finance construction of hospitals were included in the historical financial information of Imedi L for the pre-split period.

The remaining exposure was distributed to the property and casualty insurance segment and excluded from the historical financial information of Imedi L for the pre-split period.

Interest income on loans issued was allocated according to allocation of underlying interest bearing assets.

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS (continued)

Imedi L historical information (continued)

Property and equipment; Intangible assets; related depreciation and amortization charges

Property and equipment was divided separately according to each asset class. Buildings, motor vehicles and leasehold improvement were allocated to the respective segments according to the location of each unit of asset. As the remaining asset classes, such as computers and furniture, are used by particular employees, they were split in proportion to the number of full time employees working for each of the insurance segments. Depreciation of property and equipment was split accordingly.

Each unit of intangible assets was distributed between the two segments according to their usage. Amortization of intangible assets was split accordingly.

Goodwill

Only the goodwill attributable to medical insurance unit was included in historical financial information of Imedi L for the pre-split period.

Prepayments and other assets

Prepayments and other assets were analyzed based on the nature of each transaction made. Prepayments related to the construction of clinics and other receivables directly related to healthcare services or medical insurance activities were included in Imedi L's historical financial information. All other prepayments and other assets were allocated to the property and casualty segment and excluded from the historical financial information of Imedi L for the pre-split period.

Borrowings and interest expense

Borrowings were split according to their purposes. Proceeds from ING Bank N.V. of GEL 15,295 as at 31 December 2013 (2012: GEL 16,758) have been used for construction and renovation works conducted by Aldagi's subsidiaries operating in the healthcare industry. Therefore it was allocated to Imedi L. Proceeds from the rest of the borrowings were used for property and casualty insurance related expenditures and were therefore excluded from the historical financial information of Imedi L for the pre-split period.

Interest expense related to the borrowings were allocated on a per loan basis.

Accruals for employee comensation and salarires and other employee benefits

Accruals for employee compensation and salaries and other employee benefits were allocated to Imedi L based on management's best estimate of how services were historically provided by existing employees. In particular:

- Salaries and other benefits of the employees working exclusively in the medical insurance business (Imedi L) were attributed to Imedi L;
- Salaries and other benefits of the employees working in the back office providing services to both Imedi L and the property and casualty business segment was allocated according to the time they spent working for the respective segments;
- Salary and other benefits of the remaining employees performing supporting services for the company (e.g. accountants, IT, procurement, etc.) were distributed in proportion to the allocation of salaries mentioned above.

Share-based compensation expense was split proportionally to the allocation of salaries of senior executives of the Group.

Equity

Equity line items have been split in accordance with the split of net assets between each segment.

Profit for the year was split according to the allocation of income and expense of each insurance segment.

(Thousands of Georgian Lari unless otherwise stated)

2. Basis of Preparation and Approach Applied to Derive Historical Financial Information of Imedi L and EVEX Prepared in Accordance With IFRS (continued)

Imedi L historical information (continued)

Other operating income and expenses

Other operating income for the pre-split period comprised mainly of the following items, which were analyzed and allocated to the relevant segments as described below:

- Reinsurance commission income related to property and casualty insurance products and was therefore excluded from the historical financial information of Imedi L;
- Income/loss from sale of property and equipment was split by allocating each asset to the relevant segment.

General and administrative expenses

General and administrative expenses for the pre-split period comprised mainly of the following items which were analyzed and allocated to the relevant segments as described below:

- Rent paid for office space occupied exclusively by employees of one of the two insurance businesses was attributed to the respective segment. Rent paid for the space that was occupied by employees of both Imedi L and the property and casualty insurance business segment (i.e. the head office) was split in proportion to the number of employees located on the site.
- Marketing and advertising expense was split according to the funds allocated to the promotion of each specific insurance product.
- The remaining fixed costs such as utility, office supplies, communications, etc. were split in proportion to the number of employees of Imedi L and the property and casualty insurance business segment.

Net losses from foreign currencies

Gains and losses on translation of each balance sheet item were split in proportion to the final allocation of that specific item between the segments.

Income tax

Allocation of tax balances has been performed on a proportionate basis by applying the overall Aldagi group tax rate to the income earned by Imedi L.

EVEX historical information

The transfer of the healthcare providers included in the Aldagi Group to a newly established holding company EVEX was accounted for as a business combination under common control. According to the Group's accounting policies such transactions are accounted for under the 'pooling of interest method' with retrospective restatement of the comparative information. Thus individual consolidated financial statements of EVEX for the pre-split period include the assets, liabilities and operations of healthcare providers included in the Aldagi Group from the date when they came under the common control of BGH at the carrying amounts at which they were accounted for in the Aldagi Group financial statements.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies

Basis of consolidation

The combined financial statements comprise the financial statements of GHG components and its subsidiaries as at 31 December 2014. 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.

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 parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Receivables from healthcare services

Receivables from healthcare services are recognised initially at the transaction price. 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 combined income statement.

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.

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 income statement 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 combined income statement in net 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 combined income statement.

Assets carried at amortized cost

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

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

Assets carried at amortized cost (continued)

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 combined income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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.

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 combined 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 income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

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

Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

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 combined income statement 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.

Fair value measurement

The Group measures financial instruments, such as available-for-sale securities, derivatives and certain non-financial assets such as investment property, land and office buildings at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 36.

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

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

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

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Property and equipment

Property and equipment except for 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 combined income statement 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	50-100
Hospitals and Clinics	50-100
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.

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

An item of property and equipment is 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 combined income statement in the year 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

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 income statement 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. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

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 combined income statement when the borrowings are derecognised as well as through the amortization process.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of 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.

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

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

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

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

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

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 combined income statement 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

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 or 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.

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 year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods 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 combined income statement 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Net claims incurred

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

Foreign currency translation

The combined 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 combined income statement within net losses from foreign currencies, except where it relates to items where gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBG exchange rate on the date of the transaction are included in net losses from foreign currencies in the combined income statement. The official NBG exchange rates at 31 December 2014, 2013 and 2012 were 1.8636, 1.7363 and 1.6567 Georgian Lari to 1 U.S. Dollar, respectively.

Standards and interpretations that are issued but not yet effective

The standards and interpretations 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 2017 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.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

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

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.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based compensation

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including the following:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendment is applied retrospectively and clarifies the following:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

(Thousands of Georgian Lari unless otherwise stated)

3. Summary of Significant Accounting Policies (continued)

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

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies the following for the scope exceptions within IFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

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 year. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates.

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

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 major 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.

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 carrying amount of allowance for impairment of the healthcare receivables as at 31 December 2014 was GEL 6,272 (2013: GEL 3,563; 2012: GEL 2,352). Refer to Notes 10 and 30.

(Thousands of Georgian Lari unless otherwise stated)

4. Significant Accounting Judgments and Estimates (continued)

Impairment of insurance premiums and reinsurance receivables

The Group regularly reviews its insurance premiums and reinsurance receivables to assess impairment. For accounting purposes, the Group uses an incurred loss model for the recognition of losses on the impaired insurance premiums and reinsurance receivables. 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 carrying amount of allowance for impairment of insurance premiums and reinsurance receivables as at 31 December 2014 was GEL 2,255 (2013: GEL 1,645; 2012: GEL 773). Refer to Notes 9 and 30.

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 31 December 2014 was GEL 1,603 (2013: GEL 3,263; 2012: GEL 1,671). Refer to Note 16.

5. Business Combinations

Acquisitions in 2014

Avante Hospital Management Group LLC

On 20 February 2014 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of the Group, acquired 80% of the shares of Avante Hospital Management Group LLC ("Acquiree"), a healthcare company operating in Georgia from individual investors. The remaining 20% of the Avante Hospital Management Group was acquired on 5 March 2014 from individual investors.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (continued)

Acquisitions in 2014 (continued)

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

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	1,223
Receivables from healthcare services [1]	6,361
Property and equipment	50,630
Intangible assets	7
Current income tax assets	156
Other assets	945
Total assets	**59,322**
Liabilities	
Borrowings	10,734
Accounts payable	2,562
Accruals for employee compensation	1,794
Current income tax liabilities	1,679
Deferred income tax liabilities	4,000
Other liabilities	1,915
Total liabilities	**22,684**
Total identifiable net assets	**36,638**
Non-controlling interests	(10,856)
Gain from a bargain purchase [2]	(1,004)
Consideration given [3]	**24,778**

1. Fair value of the accounts receivable amounted to GEL 6,361. The gross amount of receivable is GEL 13,881. GEL 7,520 of the accounts receivable has been impaired,
2. Prior to acquisition, owners of Avante Group encountered certain financial difficulties which resulted in a lower acquisition cost causing a gain from a bargain purchase,
3. Consideration comprised GEL 25,915, which consists of cash payment of GEL 18,291 and a holdback amount with a fair vaue of GEL 7,624, less GEL 1,137 of pre-existing payables to Avante Hospital Management Group LLC. Range of the holback's possible outcome is between zero and GEL 7,624.

Net cash outflow for the acquisition was as follows:

Cash paid	18,291
Cash acquired with the subsidiary	(1,223)
Net cash outflow	**17,068**

The Group decided to increase its presence and investment in the Tbilisi healthcare market by acquiring Avante. Management considers that the deal will have a positive impact on the value of the Group.

Since the acquisition date, the Group has recorded GEL 161,507 and GEL 12,033 of revenue and profit, respectively. In the same period, GEL 38,661 and GEL 8,594 of revenue and profit, respectively, derived from the Acquiree. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 194,634 and GEL 13,965 of revenue and profit respectively.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (continued)

Acquisitions in 2014 (continued)

Traumatology LLC

On 30 September 2014 JSC Medical Corporation EVEX ("Acquirer"), acquired 100% of the shares of Traumatology LLC ("Acquiree"), a healthcare company operating in Georgia from individual investors. The estimated fair values of identifiable assets and liabilities of acquiree as at the date of acquisition were:

	Provisional fair value recognized on acquisition
Assets	
Cash and cash equivalents	253
Receivables from healthcare services [1]	1,272
Property and equipment	8,322
Current income tax assets	100
Other assets	138
Total assets	**10,085**
Liabilities	
Borrowings	1,975
Accounts payable	650
Accruals and differed income	806
Current income tax liabilities	13
Deferred income tax liability	929
Other liabilities	315
Total liabilities	**4,688**
Total identifiable net assets	**5,397**
Goodwill arising on acquisition	911
Consideration given [2]	**6,308**

1. Fair value of the accounts receivable amounted to GEL 1,272. The gross amount of receivable is GEL 2,102. GEL 830 of the accounts receivable has been impaired,
2. Consideration comprised GEL 6,308, which consists of GEL 5,362 cash payment and GEL 946 fair value of a holdback amount. Range of the holback's possible outcome is between zero and GEL 946.

Net cash outflow for the acquisition was as follows:

Cash paid	5,362
Cash acquired with the subsidiary	(253)
Net cash outflow	**5,109**

The Group decided to increase its presence and investment in the Tbilisi healthcare market, by acquiring Traumatology. Management considers that the deal will have positive impact on the value of the Group.

Since the acquisition date, the Group recorded GEL 49,685 and GEL 1,200 of revenue and profit, respectively. In the same period, GEL 2,376 and GEL 400 of revenue and profit, respectively, derived from the Acquirees. If the combination had taken place at the beginning of the period, the Group would have recorded GEL 197,859 and GEL 13,906 of revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy 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)

5. Business Combinations (continued)

Acquisitions in 2014 (continued)

Traumatology LLC (continued)

Since Traumatology LLC was acquired close to the issue date, the Group had limited time to review, analyse and perform a valuation of its net asset, therefore the net assets as well as the amount of goodwill presented above are estimated provisionally as at the issue date. The Group continues to conduct a thorough 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).

Acquisitions in 2013

Caraps Medline LLC

On 31 December 2013 Unimed Kakheti LLC ("Acquirer"), a wholly owned subsidiary of EVEX, acquired 100% of the voting rights of Caraps Medline LLC ("Acquiree"), a healthcare company operating in Georgia, from several individual invetors. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	46
Receivables from healthcare services [1]	22
Loan issued	2,664
Property and equipment	6,005
Intangible assets	4
Current income tax assets	71
Other assets	221
Total assets	**9,033**
Liabilities	
Borrowings	2,883
Accounts payable	376
Current income tax liabilities	62
Deffered income tax liability	729
Other liabilities	197
Total liabilities	**4,247**
Fair value of net assets	**4,786**
Goodwill arising on acquisition	3,534
Total consideration[2]	**8,320**

1. Fair value of receivables from healthcare services amounted to GEL 22. The gross amount of receivable is GEL 348. GEL 326 of the accounts receivable has been impaired,
2. Consideration comprised a GEL 510 pre-existing loan to Caraps Medline LLC, borrowing settlement between Caraps Medline and its previous owner of GEL 3,878 and cash payments of GEL 4,332.

Net cash outflow for the acquisition was as follows:

Cash paid	4,378
Cash acquired with the subsidiary	(46)
Net cash outflow	**4,332**

The Group decided to increase its presence and investment in the Tbilisi healthcare market, by acquiring Caraps Medline. Management considers that the deal will have positive impact on the value of the Group. Caraps Medline owns 100% stake in Medline + LLC.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (continued)

Acquisitions in 2013 (continued)

Caraps Medline LLC (continued)

As the acquisition date is 31 December 2013, no revenue or profit derived from the Acquiree in the year ended 31 December 2013. If the combination had taken place at the beginning of 2013 the Group would have recorded GEL 173,498 and GEL 12,350 of revenue and profit respectively in 2013.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill on acquisition is the positive synergy which is expected to be brought into the Group's operations. 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.

Acquisitions in 2012

JSC Insurance Company Imedi-L International

On 1 May 2012 JSC Insurance Company Aldagi ("Acquirer"), obtained control of JSC Insurance Company Imedi L International ("Acquiree"), an insurance company operating in Georgia. On 16 November 2012 the Acquiree was merged with the Acquirer. The fair values of identifiable assets, liabilities and contingent liabilities acquired, and goodwill arising from the Acquiree for its medical insurance business line as at the date of acquisition were as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	375
Amounts due from credit institutions	6,440
Insurance premiums receivable[1]	16,996
Property and equipment	48,759
Intangible assets	111
Deferred acquisition costs	826
Defered income tax assets	36
Other assets	6,730
Total assets	**80,273**
Liabilities	
Borrowings	33,228
Insurance contracts liabilities	22,900
Accruals for employee compensation	1,985
Current income tax liabilities	46
Deferred income tax liabilities	1,470
Other liabilities	14,490
Total liabilities	**74,119**
Fair value of assets	**6,154**
Goodwill arising on acquisition	99
Total consideration	**6,253**

1. Fair value of the insurance premiums receivable amounted to GEL 16,996. Gross amount of the receivable is GEL 18,963. GEL 1,967 of the premiums receivable has been impaired.

(Thousands of Georgian Lari unless otherwise stated)

5. Business Combinations (continued)

Acquisitions in 2012 (continued)

JSC Insurance Company Imedi-L International (continued)

Net cash outflow for the acquisition was as follows:

Cash paid	6,253
Cash acquired with the subsidiary	375
Net cash outflow	**5,878**

Following acquisition date, the Acquiree recorded GEL 27,818 and GEL 2,036 of net revenue and profit, respectively, during 2012. If the combination had taken place at the beginning of 2012, the Acquirer would have recorded GEL 135,381 and GEL 7,299 of net revenue and profit respectively.

The primary factor that contributed to the cost of business combination that resulted in the recognition of goodwill was the positive synergy 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.

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 explained in the table below, is measured in the same manner as profit or loss in the combined financial statements.

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

More than 40% 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 2014, 2013 or 2012.

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (continued)

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

	2014			
	Healthcare Services	***Medical Insurance***	***Intersegment transactions and balances***	***Total***
Healthcare services revenue	145,349	–	(18,465)	126,884
Net insurance premiums earned	–	69,759	(311)	69,448
Revenue	**145,349**	**69,759**	**(18,776)**	**196,332**
Cost of healthcare services	(83,298)	–	11,495	(71,803)
Net insurance claims incurred	–	(61,233)	6,970	(54,263)
Costs of services	**(83,298)**	**(61,233)**	**18,465**	**(126,066)**
Gross profit	**62,051**	**8,526**	**(311)**	**70,266**
Other operating income	2,722	153	–	2,875
Salaries and other employee benefits	(16,055)	(4,060)	311	(19,804)
General and administrative expenses	(6,933)	(2,516)	–	(9,449)
Impairment of healthcare services, insurance premiums and other receivables	(4,209)	(925)	–	(5,134)
Other operating expenses	(1,785)	(107)	–	(1,892)
Operating expenses	**(28,982)**	**(7,608)**	**311**	**(36,279)**
EBITDA	**35,791**	**1,071**	**–**	**36,862**
Depreciation and amortization	(6,998)	(632)	–	(7,630)
Interest income	297	2,257	(1,022)	1,532
Interest expense	(13,435)	(1,925)	1,022	(14,338)
Net gains/ (losses) from foreign currencies	(2,820)	326	–	(2,494)
Net non-recurring income	578	–	–	578
Profit before income tax expense	**13,413**	**1,097**	**–**	**14,510**
Income tax expense	(1,145)	(101)	–	(1,246)
Profit for the year	**12,268**	**996**	**–**	**13,264**
Assets and liabilities				
Total assets	355,043	62,910	(8,676)	409,277
Total liabilities	200,414	45,228	(8,676)	236,966
Other segment information				
Property and equipment	259,205	3,733	–	262,938
Intangible assets	1,193	515	–	1,708
Depreciation expense	(6,999)	(408)	–	(7,407)
Amortization expense	–	(223)	–	(223)

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (continued)

	2013			
	Healthcare Services	*Medical Insurance*	*Intersegment transactions and balances*	*Total*
Healthcare services revenue	93,370	–	(30,732)	62,638
Net insurance premiums earned	–	103,305	(342)	102,963
Revenue	**93,370**	**103,305**	**(31,074)**	**165,601**
Cost healthcare services	(52,387)	–	19,325	(33,062)
Net insurance claims incurred	–	(87,146)	11,633	(75,513)
Costs of services	**(52,387)**	**(87,146)**	**30,958**	**(108,575)**
Gross profit	**40,983**	**16,159**	**(116)**	**57,026**
Other operating income	2,477	435	–	2,912
Salaries and other employee benefits	(8,285)	(5,444)	116	(13,613)
General and administrative expenses	(3,955)	(2,525)	–	(6,480)
Impairment of healthcare services, insurance premiums and other receivables	(2,576)	(894)	–	(3,470)
Other operating expenses	(1,086)	(245)	–	(1,331)
Operating expenses	**(15,902)**	**(9,108)**	**116**	**(24,894)**
EBITDA	**27,558**	**7,486**	**–**	**35,044**
Depreciation and amortization	(5,218)	(683)	–	(5,901)
Interest income	343	5,192	(4,076)	1,459
Interest expense	(12,746)	(2,258)	4,076	(10,928)
Net gains/(losses) from foreign currencies	(4,156)	111	–	(4,045)
Profit before income tax expense	**5,781**	**9,848**	**–**	**15,629**
Income tax expense	(458)	(1,797)	–	(2,255)
Profit for the year	**5,323**	**8,051**	**–**	**13,374**
Assets and liabilities				
Total assets	204,045	103,501	(28,014)	279,532
Total liabilities	135,255	73,565	(28,014)	180,806
Other segment information				
Property and equipment	168,943	3,638	–	172,581
Intangible assets	498	664	–	1,162
Depreciation expense	(5,218)	(455)	–	(5,673)
Amortization expense	–	(228)	–	(228)

(Thousands of Georgian Lari unless otherwise stated)

6. Segment Information (continued)

	2012			
	Healthcare Services	*Medical Insurance*	*Intersegment transactions and balances*	*Total*
Healthcare services revenue	67,726	–	(18,276)	49,450
Net insurance premiums earned	–	70,231	(317)	69,914
Revenue	**67,726**	**70,231**	**(18,593)**	**119,364**
Cost of healthcare services	(41,932)	–	11,891	(30,041)
Net insurance claims incurred	–	(52,248)	6,652	(45,596)
Costs of services	**(41,932)**	**(52,248)**	**18,543**	**(75,637)**
Gross profit	**25,794**	**17,983**	**(50)**	**43,727**
Other operating income	1,705	1,865	(471)	3,099
Salaries and other employee benefits	(6,403)	(7,618)	292	(13,729)
General and administrative expenses	(3,109)	(2,353)	28	(5,434)
Impairment of healthcare services, insurance premiums and other receivables	(1,969)	(644)	–	(2,613)
Other operating expenses	(924)	(1,017)	201	(1,740)
Operating expenses	**(12,405)**	**(11,632)**	**521**	**(23,516)**
EBITDA	**15,094**	**8,216**	**–**	**23,310**
Depreciation and amortization	(3,324)	(500)	–	(3,824)
Interest income	1,410	4,666	(3,704)	2,372
Interest expense	(8,189)	(2,912)	3,704	(7,397)
Net gains/(losses) from foreign currencies	(1,091)	584	–	(507)
Profit before income tax expense	**3,900**	**10,054**	**–**	**13,954**
Income tax expense	(238)	(1,541)	–	(1,779)
Profit for the year	**3,662**	**8,513**	**–**	**12,175**
Assets and liabilities				
Total assets	176,782	148,628	(67,321)	258,089
Total liabilities	120,196	90,122	(34,100)	176,218
Other segment information				
Property and equipment	143,875	5,079	–	148,954
Intangible assets	339	474	–	813
Depreciation expense	(3,324)	(412)	–	(3,736)
Amortization expense	–	(88)	–	(88)

(Thousands of Georgian Lari unless otherwise stated)

7. Cash and Cash Equivalents

Cash and cash equivalents as at 31 December comprise:

	2014	*2013*	*2012*
Cash on hand	141	179	155
Current and on-demand accounts with banks	32,643	4,292	8,243
Total cash and cash equivalents	**32,784**	**4,471**	**8,398**

Cash and cash equivalents of Imedi L on stand-alone basis comprise GEL 7,183 (2013 – GEL 3,395; 2012 – GEL 8,118). The requirement of the 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 571 (2013 – GEL 515; 2012 – GEL 586).

8. Amounts Due from Credit Institutions

Amounts due from credit institutions as at 31 December comprise:

	2014	*2013*	*2012*
Time deposits with banks, local currency	5,528	1,057	934
Time deposits with banks, foreign currency	8,426	7,549	7,882
Total amounts due from credit institutions	**13,954**	**8,606**	**8,816**

Amounts due from credit institutions are represented by short (for 3 to 12 months) and medium-term placements with banks and earn annual interest of 0.54% to 12% (2013 – 2.6% to 14%; 2012 – 2.6% to 14%). Amounts due from credit institutions include GEL 1,686 of restricted cash under the export facility agreement with ING Bank N.V and GEL 6,740 of restricted cash under the agreement with JSC Bank of Georgia.

9. Insurance Premiums and Reinsurance Receivables

Insurance premiums and reinsurance receivables as at 31 December comprise:

	2014	*2013*	*2012*
Insurance premiums receivable from policyholders	19,928	50,501	53,349
Receivable from reinsurers	–	54	61
	19,928	**50,555**	**53,410**
Less – allowance for impairment	(2,255)	(1,645)	(773)
Total insurance premiums and reinsurance receivables	**17,673**	**48,910**	**52,637**

The carrying amounts disclosed above reasonably approximate their fair values at the year end. The allowance for impairment entirely comprises of the amounts due from policyholders.

10. Receivables from Healthcare Services

Receivables from healthcare services as at 31 December comprise:

	2014	*2013*	*2012*
Receivables from state	33,109	6,031	3,040
Receivables from insurance companies	6,010	6,823	5,451
Receivables from individuals and other	10,967	4,252	1,491
	50,086	**17,106**	**9,982**
Less – Allowance for impairment	(6,272)	(3,563)	(2,352)
Total receivables from healthcare services	**43,814**	**13,543**	**7,630**

(Thousands of Georgian Lari unless otherwise stated)

10. Receivables from Healthcare Services (continued)

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 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.

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 25th 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*
Gross book value									
1 January 2012	**1,308**	**40,661**	**3,093**	**1,218**	**14,505**	**506**	**914**	**6,037**	**68,242**
Acquisition through business combinations (Note 5)	120	31,016	331	242	3,792	63	(18)	13,218	48,764
Additions	1,800	96	1,847	381	10,536	428	91	24,985	40,164
Disposals	–	(961)	(48)	(13)	(306)	(19)	(53)	(1,229)	(2,629)
Transfer	–	12,767	–	85	(85)	–	–	(12,767)	–
31 December 2012	**3,228**	**83,579**	**5,223**	**1,913**	**28,442**	**978**	**934**	**30,244**	**154,541**
Acquisition through business combinations (Note 5)	–	4,889	345	–	162	–	608	–	6,004
Additions	807	6,190	648	524	11,285	566	1,110	7,414	28,544
Revaluation	96	–	–	–	–	–	–	–	96
Disposals	(962)	(1,092)	(44)	(16)	(1,714)	(40)	(169)	(578)	(4,615)
Transfer	–	35,652	–	–	111	–	–	(35,763)	–
Transfers from (to) investment property	(1,138)	–	–	–	–	–	–	–	(1,138)
31 December 2013	**2,031**	**129,218**	**6,172**	**2,421**	**38,286**	**1,504**	**2,483**	**1,317**	**183,432**
Acquisition through business combinations (Note 5)	–	51,839	589	797	5,280	306	–	141	58,952
Additions	–	27,427	1,229	1,221	6,029	998	742	2,995	40,641
Revaluation	–	–	–	–	–	–	–	–	–
Disposals	–	(59)	(24)	(198)	(598)	(46)	(1,165)	–	(2,090)
Transfer	–	840	(19)	–	19	–	(760)	(80)	–
31 December 2014	**2,031**	**209,265**	**7,947**	**4,241**	**49,016**	**2,762**	**1,300**	**4,373**	**280,935**

(Thousands of Georgian Lari unless otherwise stated)

11. Property and Equipment (continued)

	Land and office buildings	*Hospitals & clinics*	*Furniture and fixtures*	*Computers*	*Medical equipment*	*Motor vehicles*	*Leasehold improvements*	*Assets under construction*	*Total*
Accumulated depreciation									
1 January 2012	**49**	**24**	**514**	**637**	**471**	**70**	**154**	**–**	**1,919**
Depreciation charge	23	472	298	338	2,453	102	50	–	3,736
Disposals	–	(2)	(28)	(2)	(27)	(6)	(3)	–	(68)
31 December 2012	**72**	**494**	**784**	**973**	**2,897**	**166**	**201**	**–**	**5,587**
Depreciation charge	32	1,026	376	344	3,662	147	59	–	5,646
Disposals	(4)	(132)	(18)	–	(80)	(10)	(138)	–	(382)
31 December 2013	**100**	**1,388**	**1,142**	**1,317**	**6,479**	**303**	**122**	**–**	**10,851**
Depreciation charge	35	1,243	475	510	4,881	178	85	–	7,407
Disposals	–	–	(97)	(90)	(65)	(9)	–	–	(261)
31 December 2014	**135**	**2,631**	**1,520**	**1,737**	**11,295**	**472**	**207**	**–**	**17,997**
Net book value:									
1 January 2012	**1,259**	**40,637**	**2,579**	**581**	**14,034**	**436**	**760**	**6,037**	**66,323**
31 December 2012	**3,156**	**83,085**	**4,439**	**940**	**25,545**	**812**	**733**	**30,244**	**148,954**
31 December 2013	**1,931**	**127,830**	**5,030**	**1,104**	**31,807**	**1,201**	**2,361**	**1,317**	**172,581**
31 December 2014	**1,896**	**206,634**	**6,427**	**2,504**	**37,721**	**2,290**	**1,093**	**4,373**	**262,938**

(Thousands of Georgian Lari unless otherwise stated)

11. Property and Equipment (continued)

The Group engaged an independent appraiser to determine the fair value of its land and office buildings. Fair value is determined by reference to market-based evidence. The most recent revaluation report for the Group's buildings was dated 31 December 2013. If the land and office buildings were measured using the cost model, the carrying amounts of the buildings as at 31 December 2014, 2013 and 2012 would be as follows:

	2014	*2013*	*2012*
Cost	1,935	1,935	3,228
Accumulated depreciation and impairment	(133)	(100)	(72)
Net carrying amount	**1,802**	**1,835**	**3,156**

Based on the change in use, the Group reclassified one of its properties into the investment properties category. An accredited independent appraiser determined fair value of the property as at 31 December 2013 applying valuation models recommended by the International Valuation Standards Committee. Fair value was determined as GEL 1,138. Refer to note 15.

The Group pledges its office and hospital buildings as a collateral for its borrowings. The carrying amount of the buildings pledged as at 31 December 2014 was GEL 145,319 (2013: GEL 103,838; 2012: GEL 68,731).

12. Goodwill and Other Intangible Assets

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

	Goodwill	*Licenses*	*Computer software*	*Total*
Cost				
1 January 2012	**3,871**	**70**	**453**	**4,394**
Additions	–	158	241	399
Acquisitions through business vcombination	99	111	–	210
31 December 2012	**3,970**	**339**	**694**	**5,003**
Additions	–	94	769	863
Acquisitions through business combination	3,534	–	4	3,538
Disposals	–	(105)	(5)	(110)
31 December 2013	**7,504**	**328**	**1,462**	**9,294**
Additions	911	98	484	1,493
Acquisition through business combinations (Note 5)	–	5	2	7
31 December 2014	**8,415**	**431**	**1,948**	**10,794**
Accumulated amortization and impairment				
1 January 2012	**–**	**21**	**111**	**132**
Amortization charge	–	15	73	88
31 December 2012	**–**	**36**	**184**	**220**
Amortization charge	–	39	189	228
31 December 2013	**–**	**75**	**373**	**448**
Amortization charge	–	48	175	223
31 December 2014	**–**	**123**	**548**	**671**
Net book value:				
1 January 2012	**3,871**	**49**	**342**	**4,262**
31 December 2012	**3,970**	**303**	**510**	**4,783**
31 December 2013	**7,504**	**253**	**1,089**	**8,846**
31 December 2014	**8,415**	**308**	**1,400**	**10,123**

(Thousands of Georgian Lari unless otherwise stated)

12. Goodwill and Other Intangible Assets (continued)

As at 31 December 2014, 2013 and 2012 goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing purposes:

- JSC Insurance Company Aldagi – BCI;
- JSC My Family Clinic;
- Insurance Company Partner, LLC;
- JSC Insurance Company Imedi-L international;
- Caraps Medline, LLC;
- Traumatology, LLC.

Key Assumptions used in calculations

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation through a cash flow projection based on the approved budget covering a three-year period under the assumption that business will grow at a constant rate and the cash flows will be stable. For the purposes of the impairment test, a 0% permanent growth rate has been assumed when assessing the future operating cash flows of the cash-generating units.

The discount rate applied to cash flow projections is the weighted average cost of capital ("WACC") of each particular cash-generating unit.

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

			Carrying amount of goodwill		
	Effective annual growth rate in three-year financial budgets	***WACC applied for impairment***	***31 December 2014***	***31 December 2013***	***31 December 2012***
JSC Insurance Company Aldagi	33.46%	11.3%	3,260	3,260	3,260
JSC My Family Clinic	30.33%	10.5%	508	508	508
JSC Insurance Company Partner	33.46%	11.3%	103	103	103
JSC Insurance Company Imedi L International	33.46%	11.3%	99	99	99
Caraps Medline	30.33%	10.5%	3,534	3,534	–
Traumatologist	30.33%	10.5%	911	–	–
Total			**8,415**	**7,504**	**3,970**

In calculation of WACC following assumptions were made:

- A moderate, stable 5% growth of real GDP was assumed, based on the Government's and IMF forecasts.
- Further synergies between insurance and healthcare businesses will increase cost efficiency and further improve operating leverage.
- Growth of other (non-state funded) insurance business lines through an increased market demand and economic growth.

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

(Thousands of Georgian Lari unless otherwise stated)

13. Taxation

The corporate income tax expenses comprise:

	2014	*2013*	*2012*
Current tax charge	2,815	2,708	1,385
Deferred tax (benefit) charge – origination and reversal of temporary differences	(1,569)	(453)	394
Income tax expense	**1,246**	**2,255**	**1,779**

Georgian legal entities must file individual tax declarations. The statury corporate tax rate was 15% in 2014, 2013 and 2012.

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

	2014	*2013*	*2012*
IFRS income before tax	**14,510**	**15,629**	**13,954**
Statutory tax rate	15%	15%	15%
Theoretical income tax expense at the statutory rate	**2,177**	**2,344**	**2,093**
Non-taxable income	(1,034)	(409)	(349)
Non-deductible expenses	103	320	35
Income tax expense	**1,246**	**2,255**	**1,779**

(Thousands of Georgian Lari unless otherwise stated)

13. Taxation (continued)

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

	As at 1 January 2012	*In the income statement*	*Acquired through business combination*	*2012*	*In the income statement*	*In OCI*	*Acquired through business combination*	*2013*	*In the income statement*	*Acquired through business combination*	*2014*
Tax effect of deductible temporary differences											
Tax loss carried forward	40	(9)	–	31	1,298	–	–	1,329	1,806	–	3,135
Insurance receivables	157	141	194	492	105	–	–	597	108	–	705
Insurance contracts liabilities	485	(512)	457	430	(430)	–	–	–	–	–	–
Allowances for impairment and provisions for other losses	–	158	–	158	340	–	–	498	300	–	798
Salaries and other benefits	–	37	–	37	216	–	30	283	150	–	433
Other assets	153	(89)	7	71	71	–	–	142	214	–	356
Deferred tax assets	**835**	**(274)**	**658**	**1,219**	**1,600**	**–**	**30**	**2,849**	**2,578**	**–**	**5,427**
Tax effect of taxable temporary differences:											
Property and equipment	1,816	209	1,386	3,411	273	(15)	759	4,428	1,141	6,908	12,477
Insurance contracts liabilities	–	–	–	–	727	–	–	727	(721)	–	6
Intangible assets	252	67	–	319	31	–	–	350	(86)	–	264
Other liabilities	107	(156)	115	66	116	–	–	182	675	–	857
Deferred tax liabilities	**2,175**	**120**	**1,501**	**3,796**	**1,147**	**(15)**	**759**	**5,687**	**1,009**	**6,908**	**13,604**
Net deferred tax (liability) asset	**(1,340)**	**(394)**	**(843)**	**(2,577)**	**453**	**15**	**(729)**	**(2,838)**	**1,569**	**(6,908)**	**(8,177)**
Deferred income tax assets	**361**	**(498)**	**658**	**521**	**(94)**	**–**	**–**	**427**	**276**	**–**	**703**
Deferred income tax liabilities	**(1,701)**	**104**	**(1,501)**	**(3,098)**	**547**	**15**	**(729)**	**(3,265)**	**1,293**	**(6,908)**	**(8,880)**

(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

As at 31 December prepayments comprise:

	2014	*2013*	*2012*
Prepayments for property and equipment	3,267	493	2,639
Prepayments for operating expenses	1,608	4,426	6,303
Total prepayments	**4,875**	**4,919**	**8,942**

15. Other Assets

Other assets as at 31 December comprise:

	2014	*2013*	*2012*
Loans issued	7,793	6,506	6,228
Inventory	7,041	4,403	5,053
Derivative financial assets	2,054	982	–
Investment property	1,138	1,138	–
Prepaid operating taxes	1,118	1,802	3,604
Deferred acquisition costs	242	205	979
Investment securities: available-for-sale	–	–	326
Other	888	1,255	1,128
Total other assets	**20,274**	**16,291**	**17,318**

Loans issued are fully collateralized with real estate collateral. The value of pledged collateral exceeds the balance of loans issued.

In 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 active contract is USD 20.1 million as at 31 December 2014. Fair value of the active contract is GEL 2,054 as at 31 December 2014.

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

As at 31 December 2014, 2013 and 2012, loans issued by the Group consist mainly of the loans granted to the Block Georgia Group. The loans amount to GEL 7,572 at 31 December 2014 (2013: GEL 6,444; 2012: GEL 5,554), of which GEL 3,900 at 31 December 2014 (2013: GEL 3,900; 2012: GEL 3,335) is fully collateralized by real estate.

(Thousands of Georgian Lari unless otherwise stated)

16. Insurance Contract Liabilities

Insurance contract liabilities as at 31 December comprise:

	2014	*2013*	*2012*
Insurance contracts liabilities			
- Unearned premiums reserve (UPR)	14,607	44,635	49,501
- Reserves for claims reported but not settled (RBNS)	1,373	2,437	5,878
- Reserves for claims incurred but not reported (IBNR)	1,603	3,263	1,671
Total insurance contracts liabilities	**17,583**	**50,335**	**57,050**

Movements in the insurance contract liabilities during the following years ended 31 December can be analysed as follows:

	2014	*2013*	*2012*
At 1 January	**50,335**	**57,050**	**15,843**
Premiums written during the year	42,293	101,365	93,340
Premiums earned during the year	(72,321)	(106,231)	(72,711)
Claims incurred during the year	54,270	75,516	45,614
Claims paid during the year	(56,994)	(77,365)	(47,936)
Assumed through business combination	–	–	22,900
At 31 December	**17,583**	**50,335**	**57,050**

17. Borrowings

Borrowings as at 31 December comprise:

	2014	*2013*	*2012*
Borrowings from local commercial banks	148,546	89,121	74,403
Borrowings from international financial institutions	13,889	15,295	16,758
Overdrafts from local commercial banks	425	826	–
Total borrowings	**162,860**	**105,242**	**91,161**

Borrowings from local commercial banks have an average interest rate of 11.15% per annum (2013: 11.9%; 2012: 13.9%), maturing on average in 1,906 days (2013: 2,123 days; 2012: 2,637 days). Some long-term borrowings from international financial institutions are received upon certain conditions, such as maintaining different limits for leverage, capital investments, minimum amount of immovable property and others. At 31 December of 2014, 2013 and 2012 the Group complied with all these lender covenants.

18. Accounts Payable

Accounts payable as at 31 December comprise:

	2014	*2013*	*2012*
Accounts payable for healthcare materials and supplies	6,072	3,318	4,004
Accounts payable for healthcare services	1,021	2,448	2,414
Other accounts payable	988	135	178
Total accounts payable	**8,081**	**5,901**	**6,596**

(Thousands of Georgian Lari unless otherwise stated)

19. 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.

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.

20. Other Liabilities

Other liabilities as at 31 December comprise:

	2014	*2013*	*2012*
Payable for purchase of property and equipment	3,218	1,088	883
Insurance claims payable	2,745	2,301	5,291
Operating taxes payable	1,412	3,354	3,065
Payable for collection services	767	352	–
Payable for professional services	716	–	234
Other	2,629	330	1,209
Total other liabilities	**11,487**	**7,425**	**10,682**

21. Commitments and Contingencies

Legal

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

Taxation

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

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

(Thousands of Georgian Lari unless otherwise stated)

21. Commitments and Contingencies (continued)

Financial commitments and contingencies

As at 31 December the Group's financial commitments and contingencies comprise the following:

	2014	*2013*	*2012*
Capital commitments	11,997	8,682	5,500
Operating lease commitments:			
- Not later than 1 year	990	1,077	45
- Later than 1 year but not later than 5 years	1,127	3,127	25
Total financial commitments and contingencies	**14,114**	**12,886**	**5,570**

In 2014 as well as in 2013 and 2012 capital commitments comprised of construction contracts for hospitals in Samtskhe and the oncology centre in Kutaisi.

22. Equity

As at 31 December 2014 the total authorized shares of Imedi L and EVEX amounted to 28,334,829 (31 December 2013: 13,685,746 shares; 2012: 13,685,746 shares) at par value of one Georgian Lari. All authorized shares have been issued and fully paid.

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 2014, 2013 or 2012.

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.

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 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 16,980.

(Thousands of Georgian Lari unless otherwise stated)

23. Healthcare Services Revenue

	2014	2013	2012
Healthcare services revenue from state	82,729	20,106	16,451
Healthcare services revenue from insurance companies	13,348	23,236	8,915
Healthcare services revenue from out-of-pocket and other	32,623	19,296	24,084
Less: corrections & rebates	(1,816)	–	–
Total healthcare services revenue	**126,884**	**62,638**	**49,450**

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

Healthcare services revenue from insurance companies peaked in 2013 mainly due to implementation of insurance program for covered pensioners, students and children by the state that were operated by insurance companies. In 2014 healthcare services revenue stream shifted from insurance companies to the state due to implementation of UHC.

24. Net Insurance Premiums Earned

	2014	2013	2012
Gross premiums written, net of reinsurers' share	42,294	101,295	93,221
Change in unearned premiums reserve, net of reinsurers' share	29,984	4,840	(20,614)
Less: acquisition costs, net of reinsurers' share	(2,830)	(3,172)	(2,693)
Total net insurance premiums earned	**69,448**	**102,963**	**69,914**

25. Cost of Healthcare Services

	2014	2013	2012
Cost of salaries and other employee benefits	(46,504)	(20,649)	(19,309)
Cost materials and supplies	(15,636)	(7,013)	(5,441)
Cost of providers	(3,894)	(2,122)	(1,848)
Cost of utilities and other	(5,769)	(3,278)	(3,443)
Total cost of healthcare services	**(71,803)**	**(33,062)**	**(30,041)**

Cost of utilities and other comprise electricity, natural gas, cleaning, water supply, fuel supply, repair and maintenance of medical equipment, etc.

26. Net Insurance Claims Incurred

	2014	2013	2012
Insurance claims paid, net of reinsurers' share	(56,987)	(77,357)	(47,838)
Change in insurance contract liabilities, net of reinsurers' share	2,724	1,844	2,242
Net insurance claims incurred	**(54,263)**	**(75,513)**	**(45,596)**

27. Other Operating Income

Other operating income comprises:

	2014	2013	2012
Gain from sale of equipment	926	366	319
Gain from re-sale of medicines	679	169	141
Rental income	524	320	697
Revenues from factoring	316	916	1,428
Other	430	1,141	514
Total other operating income	**2,875**	**2,912**	**3,099**

In 2013 year, other caption of other operating income includes gain from revaluation of investment properties. There were no significant changes in real estate property market values in 2014 and 2012 years.

(Thousands of Georgian Lari unless otherwise stated)

28. Salaries and Other Employee Benefits

Salaries and employee benefits comprise:

	2014	*2013*	*2012*
Salaries	(16,943)	(10,816)	(9,940)
Cash bonuses	(1,658)	(1,979)	(3,531)
Share-based compensation	(920)	(631)	(226)
Insurance and other benefits	(283)	(187)	(32)
Total salaries and other employee benefits	**(19,804)**	**(13,613)**	**(13,729)**

29. General and Administrative Expenses

General and administrative expenses comprise:

	2014	*2013*	*2012*
Occupancy, maintenance and rent	(2,353)	(1,705)	(1,818)
Office supplies	(1,733)	(1,112)	(754)
Professional services	(1,038)	(215)	(414)
Marketing and advertising	(1,030)	(532)	(247)
Communication	(981)	(678)	(546)
Representative	(354)	(226)	(195)
Bank fees and commissions	(237)	(339)	(328)
Administrative utilities	(543)	(442)	(226)
Travel	(217)	(164)	(66)
Security	(190)	(30)	(112)
Other	(773)	(1,037)	(728)
Total general and administrative expenses	**(9,449)**	**(6,480)**	**(5,434)**

In 2014, 2013 and 2012 years other general and administrative expenses mainly comprised of training, charity and operating tax expeneses.

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

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

	Insurance and reinsurance receivables	***Receivables from healthcare services***	***Total***
1 January 2012	**486**	**383**	**869**
Impairment charge	644	1,969	2,613
Write-off	(357)	–	(357)
31 December 2012	**773**	**2,352**	**3,125**
Impairment charge	913	2,557	3,470
Write-off	(41)	(1,346)	(1,387)
31 December 2013	**1,645**	**3,563**	**5,208**
Impairment charge	925	4,209	5,134
Write-off	(315)	(1,500)	(1,815)
31 December 2014	**2,255**	**6,272**	**8,527**

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

(Thousands of Georgian Lari unless otherwise stated)

31. Other Operating Expenses

Other operating expenses comprises:

	2014	*2013*	*2012*
Cost of realized medicaments	(617)	(140)	–
Loss from equipment sold	(433)	(458)	(187)
Expense on factoring	(273)	(644)	–
Fixed assets write-off	(53)	–	–
Cost of realized stationery	(16)	(3)	–
Other	(500)	(86)	(1,553)
Total other operating expenses	**(1,892)**	**(1,331)**	**(1,740)**

In 2012 year, other caption of other operating expenses primarily includes one-off expenses incurred in connection with the acquisition of Imedi L.

32. Interest Income and Interest Expense

Interest income and interest expense comprise:

	2014	*2013*	*2012*
Interest income			
Interest income from amounts due from credit institutions	843	686	1,015
Interest income from loan issued	686	727	1,043
Interest income from cash and cash equivalents	3	46	314
Total interest income	**1,532**	**1,459**	**2,372**
Interest expense			
Interest expense from borrowings	**(14,338)**	**(10,928)**	**(7,397)**

As at 31 December 2014 the amount of borrowing costs capitalized in relation to quialifying items of property and equipment comprise GEL 642 (2013: GEL 550; 2012: GEL 1,821).

33. Net Non-Recurring Income

Net non-recurring income for 2014 comprise:

- GEL 1,004 gain from a bargain purchase of Avante management Group LLC;
- GEL 664 loss from shortage of medical stock, recognized as a result of stock counting in Unimedi Achara LLC;
- GEL 329 gain from disposal of a hospital building owned by Avante Management Group LLC; and
- GEL 91 loss from other insignificant transactions.

34. Share-based Compensation

During 2014, 2013 and 2012 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.

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.

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)

34. Share-based Compensation (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.

In March 2012 the Board of Directors of BGH resolved to award 18,000 ordinary shares of BGH to the CEO of the Group and 3,000 ordinary shares of BGH to the 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 6 March 2012 as the grant date. The Group estimates that the fair value of the shares awarded on 6 March 2012 was GEL 26.07 per share.

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

35. Capital Management

Capital under management consists of share capital, additional paid-in capital, retained earnings including profit or loss of the current year, 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 years ended 31 December 2014, 2013 and 2012 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".

(Thousands of Georgian Lari unless otherwise stated)

35. Capital Management (continued)

The Statutory Reserve requirement for Imedi L as at 31 December 2014 equials to the minimal amount of liquid assets of GEL 5,714. The insurance company is fully compliant whih the requirement by holding actual GEL 7,379 of total eligible liquid assets.

Because Aldagi's legal structure was different in the pre-split period, the statutory reserve requirement was not applicable to Imedi L. During that period the requirement was applicable only to the Insurance Company Aldagi, as a whole. As at 31 December 2013 the reserve requirement for Aldagi was GEL 18,539 (2012: GEL 20,373) and the company complied fully, holding actual GEL 22,204 (2012: GEL 25,940) of the eligible liquid assets.

36. 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

<u>Management Board</u>

During the pre-split period management 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 post-split period, these functions were carried out by shared management of the Group.

<u>Internal Audit</u>

During the pre-split 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 post-split period, these functions were carried out by shared 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.

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Introduction

Risk measurement and reporting systems (continued)

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.

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:

	2014	*2013*	*2012*
Loss ratio	87.7%	84.4%	74.4%
Combined ratio	99.5%	93.9%	91.6%

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Insurance risk (continued)

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:

	2014			*2013*			*2012*		
	Gross claims liabilities	***Reinsurers share of claims liabilities***	***Net claims liabilities***	***Gross claims liabilities***	***Reinsurers share of claims liabilities***	***Net claims liabilities***	***Gross claims liabilities***	***Reinsurers share of claims liabilities***	***Net claims***
Healthcare	2,481	–	2,481	5,359	–	5,359	7,166	(2)	7,164
Term Life	348	–	348	241	–	241	312	(4)	308
Travel	146	–	146	98	–	98	31	–	31
Personal accident	1	–	1	2	–	2	46	–	46
Total	**2,976**	**–**	**2,976**	**5,700**	**–**	**5,700**	**7,555**	**(6)**	**7,549**

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 on a gross and net reinsurance basis. 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 year:

Accident year	***2014***	***2013***	***2012***	***2011***
At the end of accident year	58,190	87,734	58,096	27,559
One year later	–	87,929	58,035	27,984
Two years later	–	–	58,244	27,915
Three years later	–	–	–	27,916
Current estimation of cumulative claims incurred	**58,190**	**87,929**	**58,244**	**27,916**
At the end of accident year	(55,225)	(79,100)	(47,092)	(24,506)
One year later	–	(87,835)	(58,013)	(27,818)
Two years later	–	–	(58,225)	(27,915)
Three years later	–	–	–	(27,916)
Cumulative payments to date	**(55,225)**	**(87,835)**	**(58,225)**	**(27,916)**
Outstanding claims provision per balance sheet	**2,965**	**94**	**19**	**–**
Current estimation of surplus (deficit)		**(195)**	**(149)**	**(358)**
% of surplus (deficit) to initial gross reserve		**-0.2%**	**-0.3%**	**-1.3%**

(Thousands of Georgian Lari unless otherwise stated)

36. 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, based on the Group's credit rating system.

	Notes	*Neither past due nor impaired 2014*	*Past-due but not impaired 2014*	*Impaired 2014*	*Total 2014*
Amounts due from credit institutions	8	13,954	–	–	13,954
Receivables from healthcare services	10	31,836	6,540	11,710	50,086
Loans issued	15	–	7,793	–	7,793
Derivative financial assets	15	2,054	–	–	2,054
Total		**47,844**	**14,333**	**11,710**	**73,887**

	Notes	*Neither past due nor impaired 2013*	*Past-due but not impaired 2013*	*Impaired 2013*	*Total 2013*
Amounts due from credit institutions	8	8,606	–	–	8,606
Receivables from healthcare services	10	7,670	3,817	5,619	17,106
Loans issued	15	–	6,506	–	6,506
Derivative financial assets	15	982	–	–	982
Total		**17,258**	**10,323**	**5,619**	**33,200**

	Notes	*Neither past due nor impaired 2012*	*Past-due but not impaired 2012*	*Impaired 2012*	*Total 2012*
Amounts due from credit institutions	8	8,816	–	–	8,816
Available-for-sale financial assets	15	326	–	–	326
Receivables from healthcare services	10	5,782	1,735	2,465	9,982
Loans issued	15	5,053	–	–	5,053
Total		**19,977**	**1,735**	**2,465**	**24,177**

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Credit risk (continued)

Included in past due but not impaired category are the receivables and financial assets that are overdue for not more than 30 days. 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 an assessment of expected cash flows and the availability of high turnover of receivables to ensure shortest possible days-sales-outstanding ratio.

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.

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

31 December 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 and reinsurance receivables	17,673	–	17,673
Receivables from healthcare services	43,814	–	43,814
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
Prepayments	1,608	3,267	4,875
Other assets	19,136	1,138	20,274
Total assets	**131,108**	**278,169**	**409,277**
Liabilities			
Borrowings	34,745	128,115	162,860
Insurance contract liabilities	17,583	–	17,583
Payable for share acquisitions	13,694	–	13,694
Accounts payable	8,081	–	8,081
Accruals for employee compensation	9,740	–	9,740
Current income tax liabilities	4,641	–	4,641
Deferred income tax liabilities	–	8,880	8,880
Other liabilities	11,487	–	11,487
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)

36. Risk Management (continued)

Liquidity risk and funding management (continued)

31 December 2013	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	4,471	–	4,471
Amounts due from credit institutions	2,844	5,762	8,606
Insurance premiums and reinsurance receivables	48,910	–	48,910
Receivables from healthcare services	13,543	–	13,543
Property and equipment	–	172,581	172,581
Goodwill and other intangible assets	–	8,846	8,846
Current income tax assets	938	–	938
Deferred income tax assets	–	427	427
Prepayments	4,426	493	4,919
Other assets	8,496	7,795	16,291
Total assets	**83,628**	**195,904**	**279,532**
Liabilities			
Borrowings	15,664	89,578	105,242
Insurance contract liabilities	50,335	–	50,335
Payable for share acquisitions	454	–	454
Accounts payable	5,901	–	5,901
Accruals for employee compensation	6,667	–	6,667
Current income tax liabilities	1,517	–	1,517
Deferred income tax liabilities	–	3,265	3,265
Other liabilities	7,425	–	7,425
Total liabilities	**87,963**	**92,843**	**180,806**
Net position	**(4,335)**	**103,061**	**98,726**
Accumulated gap	**(4,335)**	**98,726**	

31 December 2012	*Less than one year*	*More than one year*	*Total*
Assets			
Cash and cash equivalents	8,398	–	8,398
Amounts due from credit institutions	7,171	1,645	8,816
Insurance premiums and reinsurance receivables	52,637	–	52,637
Receivables from healthcare services	7,630	–	7,630
Property and equipment	–	148,954	148,954
Goodwill and other intangible assets	–	4,783	4,783
Current income tax assets	90	–	90
Deferred income tax assets	–	521	521
Prepayments	6,303	2,639	8,942
Other assets	10,910	6,408	17,318
Total assets	**93,139**	**164,950**	**258,089**
Liabilities			
Borrowings	2,334	88,827	91,161
Insurance contract liabilities	57,050	–	57,050
Payable for share acquisitions	1,374	–	1,374
Accounts payable	6,194	402	6,596
Accruals for employee compensation	5,500	–	5,500
Current income tax liabilities	757	–	757
Deferred income tax liabilities	–	3,098	3,098
Other liabilities	10,682	–	10,682
Total liabilities	**83,891**	**92,327**	**176,218**
Net position	**9,248**	**72,623**	**81,871**
Accumulated gap	**9,248**	**81,871**	

(Thousands of Georgian Lari unless otherwise stated)

36. 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.

31 December 2014	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	12,547	33,926	136,592	29,756	212,821
Accounts payable	8,081	–	–	–	8,081
Accruals for employee compensation	9,740	–	–	–	9,740
Other financial liabilities	7,446	–	–	–	7,446
Total undiscounted financial liabilities	**37,814**	**33,926**	**136,592**	**29,756**	**238,088**

31 December 2013	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	10,951	19,880	95,555	26,281	152,667
Accounts payable	5,901	–	–	–	5,901
Accruals for employee compensation	6,667	–	–	–	6,667
Other financial liabilities	3,741	–	–	–	3,741
Total undiscounted financial liabilities	**27,260**	**19,880**	**95,555**	**26,281**	**168,976**

31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Borrowings	5,156	14,109	72,412	42,248	133,925
Accounts payable	6,596	–	–	–	6,596
Accruals for employee compensation	5,500	–	–	–	5,500
Other financial liabilities	6,408	–	–	–	6,408
Total undiscounted financial liabilities	**23,660**	**14,109**	**72,412**	**42,248**	**152,429**

Market risk

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

The 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 does not have floating interest rate instruments and is therefore not exposed to cash flow interest risk. Interest rate fluctuations also not affect the Group's equity. The effective average interest rates by currencies for interest generating/bearing monetary financial instruments are as follows:

	2014		*2013*		*2012*	
	GEL	**USD**	**GEL**	**USD**	**GEL**	**USD**
Amounts due from credit institutions	9.95%	7.20%	13.38%	8.22%	14.00%	3.1%
Borrowings	10.63%	12.71%	12.16%	11.90%	16.82%	13.82%

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Market risk (continued)

Sensitivity of the combined income statement is the effect of the assumed changes in interest rates on the interest expense for the year. During 2014, 2013 or 2012 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 combined income statement:

Currency	*Increase in basis points 2014*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2014*
USD	+0.01%	2	–
GEL	+1.00%	916	–

Currency	*Decrease in basis points 2014*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2014*
USD	-0.01%	(2)	–
GEL	+1.00%	(916)	–

Currency	*Increase in basis points 2013*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2013*
USD	+0.16%	26	–
GEL	-1.00%	592	–

Currency	*Decrease in basis points 2013*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2013*
USD	-0.16%	(26)	–
GEL	-1.00%	(592)	–

Currency	*Increase in basis points 2012*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2012*
USD	+0.30%	36	–
GEL	+1.00%	513	–

Currency	*Decrease in basis points 2012*	*Sensitivity of interest expense*	*Sensitivity of other comprehensive income 2012*
USD	-0.30%	(36)	–
GEL	-1.00%	(513)	–

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Market risk (continued)

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 – 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.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2014, 2013 and 2012 on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	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	43,814	–	–	43,814
Loans issued	–	7,793	–	7,793
Total monetary assets	**53,745**	**44,559**	**41**	**98,345**
Liabilities				
Borrowings	119,986	42,874	–	162,860
Insurance contract liabilities	17,082	190	311	17,583
Payable for share acquisitions	13,694	–	–	13,694
Accounts payable	8,081	–	–	8,081
Other liabilities	10,903	584	–	11,487
Total monetary liabilities	**169,746**	**43,648**	**311**	**213,705**
Net monetary position, before derivatives	**(116,001)**	**911**	**(270)**	**(115,360)**
Derivative financial assets/(liabilities)	(37,082)	39,136	–	2,054
Net monetary position including derivatives	**(153,083)**	**40,047**	**(270)**	**(113,306)**
% Increase in currency exchange rate		**+23.4%**	**+1.9%**	
Effect on profit		**9,371**	**(5)**	
% Decrease in currency exchange rate		**-23.4%**	**-1.9%**	
Effect on profit		**(9,371)**	**5**	

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

	2013			
	GEL	*USD*	*EUR*	*Total*
Assets				
Cash and cash equivalents	3,246	1,213	12	4,471
Amounts due from credit institutions	1,057	7,549	–	8,606
Receivables from healthcare services	13,543	–	–	13,543
Loans issued	–	6,506	–	6,506
Total monetary assets	**17,846**	**15,268**	**12**	**33,126**
Liabilities				
Borrowings	5,416	99,826	–	105,242
Insurance contract liabilities	49,832	284	219	50,335
Payable for share acquisitions	454	–	–	454
Accounts payable	5,901	–	–	5,901
Other liabilities	7,398	–	27	7,425
Total monetary liabilities	**69,001**	**100,110**	**246**	**169,357**
Net monetary position, before derivatives	**(51,155)**	**(84,842)**	**(234)**	**(136,231)**
Derivative financial assets/(liabilities)	(56,316)	57,298	–	982
Net monetary position including derivatives	**(107,471)**	**(27,544)**	**(234)**	**(135,249)**
% Increase in currency exchange rate		**+0.8%**	**+1.9%**	
Effect on profit		**(220)**	**(4)**	
% Decrease in currency exchange rate		**-0.8%**	**-1.9%**	
Effect on profit		**220**	**4**	

	2012			
	GEL	*USD*	*EUR*	*Total*
Assets				
Cash and cash equivalents	280	8,118	–	8,398
Amounts due from credit institutions	934	7,882	–	8,816
Receivables from healthcare services	7,630	–	–	7,630
Loans issued	–	6,228	–	6,228
Total monetary assets	**8,844**	**22,228**	**–**	**31,072**
Liabilities				
Borrowings	2,877	88,284	–	91,161
Insurance contract liabilities	56,389	415	246	57,050
Payable for share acquisitions	1,374	–	–	1,374
Accounts payable	6,596	–	–	6,596
Other liabilities	10,596	–	86	10,682
Total monetary liabilities	**77,832**	**88,699**	**332**	**166,863**
Net monetary position	**(68,988)**	**(66,471)**	**(332)**	**(135,791)**
Derivative financial assets/(liabilities)	24,669	(24,022)	–	(647)
Net monetary position including derivatives	**(93,657)**	**(90,493)**	**(332)**	**(136,438)**
% Increase in currency exchange rate		**+1.2%**	**+1.9%**	
Effect on profit		**(1,086)**	**(6)**	
% Decrease in currency exchange rate		**-1.2%**	**-1.9%**	
Effect on profit		**1,086**	**6**	

(Thousands of Georgian Lari unless otherwise stated)

36. Risk Management (continued)

Market risk (continued)

Currency risk (continued)

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

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.

(Thousands of Georgian Lari unless otherwise stated)

37. 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:

Assets measured at fair value	***Level 1***	***Level 2***	***Level 3***	***Total fair value 2014***	***Carrying value 2014***	***Unrecog-nised gain (loss) 2014***
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	–	–	43,814	43,814	43,814	–
Other assets: loans issued	–	–	7,793	7,793	7,793	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	162,860	162,860	162,860	–

(Thousands of Georgian Lari unless otherwise stated)

37. Fair Values Measurements (continued)

Assets measured at fair value	*Level 1*	*Level 2*	*Level 3*	*Total fair value 2013*	*Carrying value 2013*	*Unrecog-nised gain (loss) 2013*
Property and equipment	–	–	1,931	1,931	1,931	–
Other assets: derivative financial assets	–	982	–	982	982	–
Other assets: investment property	–	–	1,139	1,139	1,139	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	4,471	–	4,471	4,471	–
Amounts due from credit institutions	–	–	8,606	8,606	8,606	–
Receivables from healthcare services	–	–	13,543	13,543	13,543	–
Other assets: loans issued	–	–	6,506	6,506	6,506	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	105,242	105,242	105,242	–

Assets measured at fair value	*Level 1*	*Level 2*	*Level 3*	*Total fair value 2012*	*Carrying value 2012*	*Unrecog-nised gain (loss) 2012*
Property and equipment	–	–	3,156	3,156	3,156	–
Other assets: investment securities	–	–	326	326	326	–
Assets for which fair values are disclosed						
Cash and cash equivalents	–	8,398	–	8,398	8,398	–
Amounts due from credit institutions	–	–	8,816	8,816	8,816	–
Receivables from healthcare services	–	–	7,630	7,630	7,630	–
Other assets: loans issued	–	–	6,506	6,506	6,506	–
Liabilities for which fair values are disclosed						
Borrowings	–	–	91,161	91,161	91,161	–
Other liabilities: derivative financial liabilities	–	647	–	647	647	–

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

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.

Investment securities available-for-sale

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

(Thousands of Georgian Lari unless otherwise stated)

37. Fair Values Measurements (continued)

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

	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

	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

(Thousands of Georgian Lari unless otherwise stated)

37. Fair Values Measurements (continued)

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

Level 3 property at fair value (continued)

	2013	*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

	2013	*Valuation technique*	*Significant unobservable inputs*	*Range*	*Other key information*	*Range*	*Sensitivity of the input to fair value*
Property and equipment	**1,931**						
	1,681	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
	250	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 combined 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.

(Thousands of Georgian Lari unless otherwise stated)

38. Related Party Transactions

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

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

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

	2014		*2013*			*2012*	
Assets	*Parent*	*Entities under common control**	*Parent*	*Entities under common control**	*Key management personnel ***	*Parent*	*Entities under common control**
Cash and cash equivalents	31,468	7	4,383	7	–	196	–
Amounts due from credit institutions	6,740	–	5,762	–	–	5,506	–
Insurance premiums and reinsurance receivables	747	241	717	76	–	656	91
Other assets: derivative financial assets	–	2,054	982	–	–	–	–
Other assets	162	425	109	–	–	–	–
	39,117	**2,727**	**11,953**	**83**	**–**	**6,358**	**91**
Liabilities							
Borrowings	89,769	2,980	50,668	–	–	45,413	–
Other liabilities	813	335	364	–	–	116	–
	90,582	**3,315**	**51,032**	**–**	**–**	**45,529**	**–**
Income and expenses							
Insurance premiums earned	–	–	1,648	95	–	1,240	35
General and administrative expenses	(512)	(39)	–	–	–	–	–
Interest income	–	263	6	–	–	14	–
Interest expense	(6,256)	(425)	(2,323)	–	–	(4,181)	–
Other operating expenses	(413)	(126)	–	–	(186)	–	–
	(7,657)	**(327)**	**(817)**	**95**	**(186)**	**(2,927)**	**35**

* Entities under common control include Bank of Georgia Holdings plc subsidiaries.
** Key management personnel include chief executive officers, deputies and members of supervisory board of Imedi L and EVEX and their close family members.

Compensation of key management personnel (2014: 7 persons; 2013: 7 persons; 2012: 7 persons) comprised the following:

	2014	*2013*	*2012*
Salaries and cash bonuses	1,335	1,400	1,492
Share-based compensation	920	631	226
Total key management compensation	**2,255**	**2,031**	**1,718**

39. Events After Reporting Period

On 29 April 2015 JSC Georgia Healhtcare Group was established by the BOG. Following that, 100% shares of Imedi L and EVEX, ultimately owned by BGH, was transferred to GHG.

In June 2015 the Group acquired 95% equity interest in Deka LLC, a signle asset company which owns 350 bed capacity hospital and is located in Tbilisi.

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 June 2015, the Group completed the issuance of two-year local bonds of US$15 million (GEL 34.5 million). The bonds were issued at par with annual rate of 9.5% payable semi-annually.