JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2017
Together with Independent Auditor's Report

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

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

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Independent auditor's report

To the Shareholders and the Supervisory Board of JSC Bank of Georgia

Opinion

We have audited the consolidated financial statements of JSC Bank of Georgia and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (*IESBA Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed it
Impairment of loans to customers	
The allowance for loan losses is estimated using a combination of a collective and individual impairment assessment based on discounted cash flow analyses. Both collectively and individually assessed impairment depend on a number of assumptions and judgments made by the management, including significant unobservable inputs and factors such as probabilities of default and loss-given-default assumptions, as well as estimates of expected future cash flows and valuations of collateral. The use of alternative provisioning models and assumptions could have a material impact on the recognized impairment allowance and reported profits of the Group. Information on the impairment of loans to customers is included in Note 10, *Loans to Customers*, Note 11, *Finance Lease Receivables*, and Note 27, *Risk Management*, to the consolidated financial statements.	We performed a walkthrough of the loan loss allowance processes for both collectively assessed and individually impaired loans and assessed the design and operating effectiveness of key controls. We tested key controls over the loan loss allowance, which included controls over the identification of loans to be subject to the individual allowance assessment, management's review of key assumptions, classification of borrowers into their respective risk grades, calculation of days past due, and the recalculation of the loan loss allowance, including the valuation of collateral. For individually assessed loan loss allowance, we tested loan exposures subject to individual assessment on a sample basis. We focused on review of the Group's documented credit assessment of the borrowers, on analysis of the management's assumptions around future cash flow projections and the valuation of collateral held. For the collectively assessed loan loss allowance, we assessed the collective provisioning methodology as well as the assumptions and data inputs, recalculated the collective loan loss allowance and performed sensitivity analysis to changes in key model inputs. We also assessed the disclosures in the consolidated financial statements about the Group's allowance for impairment.
Valuation of land, office buildings and service centres and investment properties	
The Group applies the fair value model for investment properties. The Group engaged a professional valuer to determine the fair value of its investment properties. During the year, the Group voluntarily changed the accounting policy for subsequent measurement of its office buildings and service centres (including related land) from the revaluation model to the cost model. The Group restated each of the affected historical financial statement line items for the prior periods as if the cost model in respect of that	We engaged our Real Estate specialists to evaluate a sample of the Group's investment properties. The specialists' assessment included evaluation of the competence and objectivity of the external valuers engaged by the Group, analysis of the methods and assumptions used and testing of the data provided by the valuers. We assessed recognition of the results of the valuations and the Group's disclosures in relation to the valuation of investment properties.

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Key audit matter	How our audit addressed it
class of property and equipment had been always applied. Real estate valuations are inherently uncertain and subject to an estimation process. Furthermore, the Group's real estate properties are located primarily in Georgia, where the secondary market is relatively illiquid, that could have significant impact on the valuation results and, accordingly, on the Group's reported equity and profits. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of land, office buildings and service centres and investment properties is included to Note 3, Summary *of Significant Accounting Policies*, Note 12, *Investment Properties*, Note 13, *Property and Equipment*, and Note 28, *Fair Value Measurements*, to the consolidated financial statements.	We challenged management's justification for a change in the accounting policy in respect of subsequent measurement of office buildings and service centres, analysed and inspected application of the proposed accounting treatment, including the adjustments made by management to restate the prior periods' balances in that respect, as well as respective disclosures.

Other information included in the Group's 2017 Annual report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

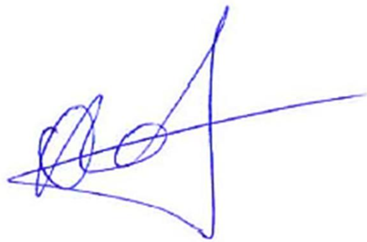
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Oleg Youshenkov.



Oleg Youshenkov

For and on behalf of EY Georgia LLC

Tbilisi, Georgia

27 April 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016*	2015*
Assets				
Cash and cash equivalents	7	1,501,654	1,487,170	1,376,782
Amounts due from credit institutions	8	1,216,343	940,485	718,677
Investment securities available-for-sale	9	1,613,759	1,283,902	902,240
Loans to customers	10	7,445,578	6,379,965	5,322,887
Finance lease receivables	11	65,306	13,096	14,010
Investment properties	12	202,534	152,596	135,453
Prepayments		55,953	12,452	17,662
Property and equipment	13	305,474	277,394	273,058
Intangible assets		50,948	35,814	30,669
Investments in associates		11,031	9,626	-
Goodwill	14	33,453	33,453	33,453
Current income tax assets		696	18,505	988
Deferred income tax assets	15	130	194	12,106
Other assets	16	117,857	88,280	130,926
Total assets		12,620,716	10,732,932	8,968,911
Liabilities				
Amounts due to customers	17	7,123,866	5,773,512	5,025,677
Amounts due to credit institutions and other borrowings	18	3,162,209	3,468,353	1,677,587
Debt securities issued	19	749,655	177,271	940,945
Current income tax liabilities		8,753	-	9,658
Deferred income tax liabilities	15	11,342	22,169	74,539
Provisions	20	2,815	3,380	2,254
Other liabilities	16	80,157	55,103	43,320
Total liabilities		11,138,797	9,499,788	7,773,980
Equity	21			
Share capital		27,821	27,821	27,821
Additional paid-in capital		141,154	216,030	297,300
Treasury shares		(9)	(9)	(3)
Other reserves		10,212	252	(29,748)
Retained earnings		1,302,741	975,314	887,665
Total equity attributable to shareholders of the Bank		1,481,919	1,219,408	1,183,035
Non-controlling interests		-	13,736	11,896
Total equity		1,481,919	1,233,144	1,194,931
Total liabilities and equity		12,620,716	10,732,932	8,968,911

** Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3*

Signed and authorised for release on behalf of the Management Board:

Kaha Kiknavelidze Chief Executive Officer

David Tsiklauri Chief Financial Officer

27 April 2018

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Interest income				
Loans to customers		965,614	806,641	783,514
Investment securities – available-for-sale		113,276	90,589	69,407
Amounts due from credit institutions		17,031	7,933	9,588
Finance lease receivables		9,464	2,879	2,834
		1,105,385	908,042	865,343
Interest expense				
Amounts due to customers		(221,410)	(194,029)	(191,155)
Amounts due to credit institutions and other borrowings		(195,594)	(137,248)	(101,205)
Debt securities issued		(43,834)	(41,583)	(66,926)
		(460,838)	(372,860)	(359,286)
Net interest income		644,547	535,182	506,057
Fee and commission income		191,000	168,386	157,529
Fee and commission expense		(74,730)	(58,496)	(52,435)
Net fee and commission income	22	116,270	109,890	105,094
Net real estate gain	23	5,679	8,631	11,831
Net gain from investment securities available-for-sale		2,060	2,162	73
Net gain (loss) from other derivative financial instruments		1,478	(634)	-
Net gain (loss) from revaluation of investment properties	12	7,336	(1,221)	6,388
Net gain from foreign currencies:				
– dealing		66,502	65,461	64,561
– translation differences		19,238	18,307	1,257
Net other operating income (expense)		(1,056)	1,912	1,761
Other operating non-interest income		101,237	94,618	85,871
Revenue		862,054	739,690	697,022
Salaries and other employee benefits	24	(186,885)	(153,760)	(139,141)
General and administrative expenses	24	(95,007)	(75,534)	(67,239)
Depreciation and amortization		(38,414)	(34,883)	(31,520)
Other operating expenses		(3,063)	(3,425)	(2,855)
Operating expenses		(323,369)	(267,602)	(240,755)
Operating income before cost of credit risk		538,685	472,088	456,267

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Operating income before cost of credit risk		538,685	472,088	456,267
Impairment charge on loans to customers	10	(156,558)	(155,366)	(142,814)
Impairment charge on finance lease receivables	11	(475)	(161)	(1,615)
Impairment charge on other assets and provisions		(11,316)	(5,616)	(6,013)
Cost of credit risk		(168,349)	(161,143)	(150,442)
Net operating income before non-recurring items		370,336	310,945	305,825
Net non-recurring items	25	(3,589)	(49,169)	(10,659)
Profit before income tax (expense) gain from continuing operations		366,747	261,776	295,166
Income tax (expense) benefit	15	(27,840)	27,318	(42,722)
Profit for the year from continuing operations		338,907	289,094	252,444
Profit from discontinued operations		-	-	8,278
Profit for the year		338,907	289,094	260,722
Total profit attributable to:				
– shareholders of the Bank		338,761	287,945	257,628
– non-controlling interests		146	1,149	3,094
		338,907	289,094	260,722
Profit from continuing operations attributable to:				
– shareholders of the Bank		338,761	287,945	249,997
– non-controlling interests		146	1,149	2,447
		338,907	289,094	252,444
Profit from discontinued operations attributable to:				
– shareholders of the Bank		-	-	7,631
– non-controlling interests		-	-	647
		-	-	8,278
Basic and diluted earnings per share, total:	21	12.1803	10.3511	7.9944
– earnings per share from continuing operations		12.1803	10.3511	7.7576
– earnings per share from discontinued operations		-	-	0.2368

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016*	2015*
Profit for the year		338,907	289,094	260,722
Other comprehensive (loss) income from continuing operations				
Other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods:				
– Unrealized revaluation of available-for-sale securities		3,595	85,612	(30,863)
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		(2,058)	(28,143)	(34)
– (Loss) gain from currency translation differences		(3,259)	234	(14,749)
Income tax effect	15	(551)	(5,019)	1,551
Net other comprehensive (loss) income from continuing operations to be reclassified to profit or loss in subsequent periods		(2,273)	52,684	(44,095)
Other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment	13	3,483	-	-
Income tax effect	15	(781)	-	-
Net other comprehensive (loss) income from continuing operations not to be reclassified to profit or loss in subsequent periods		2,702	-	-
Other comprehensive gain (loss) from discontinued operations		-	-	(117)
Other comprehensive income (loss) for the year, net of tax		429	52,684	(44,212)
Total comprehensive income for the year from continuing operations		339,336	341,778	208,349
Total comprehensive income for the year from discontinued operations		-	-	8,161
Total comprehensive income for the year		339,336	341,778	216,510
Total comprehensive income attributable to:				
– shareholders of the Bank		339,190	339,938	216,016
– non-controlling interests		146	1,840	494
		339,336	341,778	216,510
Total comprehensive income from continuing operations attributable to:				
– shareholders of the Bank		339,190	339,938	208,438
– non-controlling interests		146	1,840	(89)
		339,336	341,778	208,349
Total comprehensive income from discontinued operations attributable to:				
– shareholders of the Bank		-	-	7,578
– non-controlling interests		-	-	583
		-	-	8,161

** Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3*

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Attributable to shareholders of the Group							
	Share capital	*Additional paid-in capital*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2014	36,513	611,238	(1,522)	31,211	728,839	1,406,279	54,808	1,461,087
Change in accounting policy (Note 3)	-	-	-	(35,695)	(1,230)	(36,925)	(1,860)	(38,785)
1 January 2015 (restated)	36,513	611,238	(1,522)	(4,484)	727,609	1,369,354	52,948	1,422,302
Profit for the year	-	-	-	-	257,628	257,628	3,094	260,722
Other comprehensive loss for the year	-	-	-	(34,012)	(7,600)	(41,612)	(2,600)	(44,212)
Total comprehensive income	-	-	-	(34,012)	250,028	216,016	494	216,510
Increase in equity arising from share-based payments	-	22,839	502	-	-	23,341	162	23,503
Dividends to shareholders of the Bank (Note 21)	-	-	-	-	(64,988)	(64,988)	-	(64,988)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	1,645	-	1,645	(3,261)	(1,616)
Dilution of interests in subsidiaries	-	-	-	-	-	-	27,947	27,947
Non-controlling interests arising on acquisition of subsidiary	-	-	-	-	-	-	1,488	1,488
Reorganization	(8,692)	(327,470)	1,160	7,103	(24,984)	(352,883)	(67,882)	(420,765)
Purchase of treasury shares and contributions under share-based payment plan	-	(9,307)	(143)	-	-	(9,450)	-	(9,450)
31 December 2015*	27,821	297,300	(3)	(29,748)	887,665	1,183,035	11,896	1,194,931
Profit for the year	-	-	-	-	287,945	287,945	1,149	289,094
Other comprehensive loss for the year	-	-	-	51,692	301	51,993	691	52,684
Total comprehensive income	-	-	-	51,692	288,246	339,938	1,840	341,778
Increase in equity arising from share-based payments	-	38,195	-	-	-	38,195	-	38,195
Dividends to shareholders of the Bank (Note 21)	-	-	-	-	(200,597)	(200,597)	-	(200,597)
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	(21,692)	-	(21,692)	-	(21,692)
Contributions under share-based payment plan (Note 26)	-	(119,465)	(6)	-	-	(119,471)	-	(119,471)
31 December 2016*	27,821	216,030	(9)	252	975,314	1,219,408	13,736	1,233,144
Effect of early adoption of IFRS 15 (Note 3)	-	-	-	-	(10,827)	(10,827)	-	(10,827)
1 January 2017	27,821	216,030	(9)	252	964,487	1,208,581	13,736	1,222,317
Profit for the year	-	-	-	-	338,761	338,761	146	338,907
Other comprehensive loss for the year	-	-	-	936	(507)	429	-	429
Total comprehensive income	-	-	-	936	338,254	339,190	146	339,336
Increase in equity arising from share-based payments	-	50,394	-	-	-	50,394	-	50,394
Acquisition of non-controlling interests in existing subsidiaries	-	-	-	13,882	-	13,882	(13,882)	-
Aciqusition of entity under common control (Note 5)	-	-	-	(4,858)	-	(4,858)	-	(4,858)
Contributions under share-based payment plan (Note 26)	-	(125,270)	-	-	-	(125,270)	-	(125,270)
31 December 2017	27,821	141,154	(9)	10,212	1,302,741	1,481,919	-	1,481,919

** Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3*

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Cash flows from operating activities				
Interest received		1,086,379	894,996	867,191
Interest paid		(458,060)	(410,417)	(352,394)
Fees and commissions received		186,007	163,926	152,416
Fees and commissions paid		(74,730)	(58,501)	(52,535)
Net cash inflow from real estate		5,336	12,601	7,158
Net realised gains from trading securities		-	1,177	39
Net realised gains from investment securities available-for-sale		-	2,091	34
Net realised gains from foreign currencies		66,502	65,461	64,561
Recoveries of loans to customers previously written off	10	52,792	36,244	33,685
Other expenses paid		(16,620)	(50,681)	(11,949)
Salaries and other employee benefits paid		(136,014)	(121,198)	(112,712)
General and administrative and operating expenses paid		(81,666)	(73,887)	(64,563)
Cash flows from operating activities from continuing operations before changes in operating assets and liabilities		629,926	461,812	530,931
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(294,287)	(146,572)	(196,780)
Loans to customers		(1,456,372)	(719,819)	249,879
Finance lease receivables		(7,577)	2,291	3,228
Prepayments and other assets		(12,980)	46,354	11,692
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions and other borrowings		(271,170)	1,641,229	98,738
Debt securities issued		568,250	(831,549)	(113,121)
Amounts due to customers		1,436,334	357,110	396,460
Other liabilities		(4,799)	11,545	(16,918)
Net cash flows from operating activities from continuing operations before income tax		587,325	822,401	964,109
Income tax paid		(9,303)	(44,326)	(28,360)
Net cash flows from operating activities from continuing operations		578,022	778,075	935,749
Net cash flows from operating activities from discontinued operations		-	-	63,298
Net Cash flow from operating activities		578,022	778,075	999,047
Cash flows (used in) from investing activities				
Acquisition of subsidiaries, net of cash acquired	5	(8,133)	-	22,620
Repayment of remaining holdback amounts from previous year acquisitions		-	(8,768)	-
Net purchase of investment securities available-for-sale		(321,379)	(317,297)	(157,139)
Proceeds from sale of investment properties	12	11,067	4,455	19,813
Proceeds from sale of property and equipment and intangible assets	13	2,015	980	3,592
Purchase of property and equipment and intangible assets		(104,601)	(45,794)	(51,575)
Net cash flows used in investing activities from continuing operations		(421,031)	(366,424)	(162,689)
Net cash flows used in investing activities from discontinued operations		-	-	(104,815)
Reorganization		-	-	(4,356)
Net cash flows used in investing activities		(421,031)	(366,424)	(271,860)

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Notes	2017	2016	2015
Cash flows (used in) from financing activities				
Dividends paid		(211)	(200,099)	(66,627)
Contributions under share-based payment plan (Note 26)		(125,270)	(119,471)	(9,450)
Purchase of additional interests in existing subsidiaries		(21,701)	-	-
Net cash used in financing activities from continuing operations		(147,182)	(319,570)	(76,077)
Net cash from (used in) financing activities from discontinued operations		-	-	26,330
Net cash used in financing activities		(147,182)	(319,570)	(49,747)
Effect of exchange rates changes on cash and cash equivalents		4,675	18,307	(10,519)
Net increase (decrease) in cash and cash equivalents		14,484	110,388	666,921
Cash and cash equivalents, beginning	7	1,487,170	1,376,782	709,861
Cash and cash equivalents, ending	7	1,501,654	1,487,170	1,376,782

The accompanying notes on pages 8 to 78 are an integral part of these consolidated financial statements.

1. Principal Activities

JSC Bank of Georgia (the "Bank") was established on 21 October 1994 as a joint stock company ("JSC") under the laws of Georgia. The Bank operates under a general banking license issued by the National Bank of Georgia ("NBG"; the Central Bank of Georgia) on 15 December 1994.

The Bank accepts deposits from the public and extends credit, transfers payments in Georgia and internationally and exchanges currencies. Its main office is in Tbilisi, Georgia. At 31 December 2017 the Bank has 286 operating outlets in all major cities of Georgia (31 December 2016: 278, 31 December 2015: 266). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) is a public limited liability company incorporated in England and Wales and represents the ultimate parent company of the Bank. The shares of BGEO PLC are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities, effective 28 February 2012.

Following the NBG's intention to regulate banks in Georgia on a standalone basis and thereby limit investment in nonbanking subsidiaries by locally regulated banking entities, the Bank completed legal restructuring in August 2015 ("Reorganization"). As a result, a new holding company was established under the laws of Georgia as a parent of the Bank by BGEO PLC – JSC BGEO Group ("JSC BGEO"). The Bank's former non-banking subsidiaries that represented separate major lines of business ("Discontinued Operations") were moved directly under JSC BGEO as the Bank's sister companies during the reorganization. The Group accounted for this transaction with JSC BGEO as an equity distribution.

The Bank and its remaining subsidiaries make up a group of companies (the "Group") mainly incorporated in Georgia and Belarus. Primary business activities include providing banking services to corporate and individual customers. The list of the companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

As at 31 December 2017, 31 December 2016 and 31 December 2015 JSC BGEO, was the principal shareholder of the Bank:

Shareholder	31 December 2017	31 December 2016	31 December 2015
JSC BGEO Group	99.55%	99.55%	99.52%
Others*	0.45%	0.45%	0.48%
Total	100.00%	100.00%	100.00%

** Shares listed on Georgian Stock Exchange.*

2. Basis of Preparation

General

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2017 reporting.

The Bank and its Georgian-based subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Georgian Lari, while the Bank's subsidiaries established outside of Georgia are in their respective local currencies. These consolidated financial statements are prepared under the historical cost convention except for:

- the measurement at fair value of financial assets and investment securities, derivative financial assets and liabilities, investment properties.
- the measurement of inventories at lower of cost and net realizable value.

The financial statements are presented in thousands of Georgian Lari ("GEL"), except per-share amounts and unless otherwise indicated.

2. Basis of Preparation (continued)

Going concern

The Bank's Management Board has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for a period of at least twelve months from the date of approval of the financial statements. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

Subsidiaries and associates

The consolidated financial statements as at 31 December 2017, 31 December 2016 and 31 December 2015 include the following subsidiaries and associates:

Subsidiaries	*Proportion of voting rights and ordinary share capital held*						
	31 December 2017	*31 December 2016*	*31 December 2015*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
Bank of Georgia Representative Office UK Limited	100.00%	100.00%	100.00%	United Kingdom	Information Sharing and Market Research	17/8/2010	–
Tree of Life Foundation NPO	100.00%	100.00%	100.00%	Georgia	Charitable activities	25/8/2008	–
Bank of Georgia Representative Office Hungary	100.00%	100.00%	100.00%	Hungary	Representative Office	18/6/2012	–
Representative Office of JSC Bank of Georgia in Turkey	100.00%	100.00%	100.00%	Turkey	Representative Office	25/12/2013	–
Georgia Financial Investments, LLC	100.00%	100.00%	100.00%	Israel	Information Sharing and Market Research	9/2/2009	–
Professional Basketball Club Dinamo Tbilisi, LLC	100.00%	100.00%	100.00%	Georgia	Sport	10/1/2011	–
Teaching University of Georgian Bank, LLC	100.00%	100.00%	100.00%	Georgia	Education	15/10/2013	–
Privat Guard, LLC	-	-	100.00%	Georgia	Security	–	21/1/2015
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
Þ JSC Belarusky Narodny Bank	99.98%	79.99%	79.99%	Belarus	Banking	16/4/1992	3/6/2008
Þ BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC (a)	100.00%	-	-	Georgia	Leasing	29/10/2001	31/12/2004
Þ Prime Leasing (a)	100.00%	-	-	Georgia	Leasing	27/1/2012	21/1/2015

Associates	*Proportion of voting rights and ordinary share capital held*						
	31 December 2017	*31 December 2016*	*31 December 2015*	*Country of incorporation*	*Industry*	*Date of incorporation*	*Date of acquisition*
JSC Credit info	21.08%	19.11%	16.63%	Georgia	Financial Intermediation	14/2/2005	14/2/2005

(a) In June 2017 the Bank acquired Georgian Leasing Company ("GLC")

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. The Group consolidates a subsidiary when it controls it. 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; and
- The Group's voting rights and potential voting rights.

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

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

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

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

Business combinations and goodwill

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

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

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

3. Summary of Selected Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

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

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

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

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

Business combination under common control

Business combinations under common control are accounted for using the pooling of interest method without restatement of prior periods to the combination under common control, to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination.

When the Group acquires a business under common control the assets and liabilities of the combining entities are reflected at their carrying amounts. No goodwill is recognized as a result of the combination. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity. The income statement reflects the result of combining entities.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When available for sale investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognized in other comprehensive income is reclassified in profit or loss.

3. Summary of Selected Significant Accounting Policies (continued)

Fair value measurement

The Group measures financial instruments, such as trading and investment securities, derivatives and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition.

Date of recognition

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities. Such assets are carried at amortised cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3. Summary of Selected Significant Accounting Policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any other categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statements as gains less losses from foreign currencies translation difference.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from central banks, excluding obligatory reserves with central banks, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances and readily convertible to known amount of cash.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers (including promissory notes issued). These are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

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

3. Summary of Selected Significant Accounting Policies (continued)

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank on the international financial markets or domestic market. The holders of subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of the Bank's liquidation. Subordinated debt is carried at amortised cost.

Leases

i. Finance – Group as lessor

Leases that transfer substantially all the risks and benefits incidental to ownership of the lease item to the lessee are classified as finance leases. The Group recognises finance lease receivables in the consolidated statement of financial position at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease. Initial direct costs are included in the initial measurement of the finance lease receivables. Lease payments received are apportioned between the finance income and the reduction of the outstanding lease receivable. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

ii. Operating – Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions, loans to customers and finance lease receivables

For amounts due from credit institutions, loans to customers and finance lease receivables carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them 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 there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement in the respective impairment line with a negative sign as a reversal of impairment.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Write-off of loans to customers

All retail loans, except mortgages, are written off when overdue by more than 150 days. Retail mortgage loans are written off when overdue by more than 365 days. Write off of corporate loans overdue by more than 150 days is subject to management discretion and is evaluated on a case by case basis, taking into account the current and expected positions of the loan/borrower.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

A renegotiated loan is a loan for which the terms have been modified or for which additional collateral has been requested that was not contemplated in the original contract in response to a customer's financial difficulties.

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. When the contractual payment terms of a loan are modified because we have significant concerns about the borrower's ability to meet contractual payments when due, these loans are classified as 'renegotiated loans'. Indicators of financial difficulties include defaults on covenants, significant arrears for 30 days or more in a three-month period, or concerns raised by the Credit Risk Department. Typical key features of terms and conditions granted through renegotiation to avoid default include special interest rates, postponement of interest or amortization payments, modification of the schedule of repayments or amendment of loan maturity. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

For the purposes of measuring credit losses within the collective loan loss assessment, these loans are not segregated from other loans which have not been renegotiated. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired.

Once a loan in retail book is identified as renegotiated, it remains within this category until maturity or de-recognition from the balance sheet unless the customer is able to cure the break by making 6 regular payments on time. Corporate loans retain renegotiated loan designation until maturity or de-recognition unless borrower's experiences significant credit improvement during the remaining life of the loan. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is 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 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

3. Summary of Significant Accounting Policies (continued)

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost of a first-in / first-out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Taxation

The current income tax expense is calculated in accordance with the regulations in force in the respective territories in which the Bank and its subsidiaries operate.

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 tax liabilities are 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 and Belarus also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Investment properties

Investment property is land or building or a part of a building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as an investment property is also classified as an investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the basis of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

3. Summary of Significant Accounting Policies (continued)

Investment properties (continued)

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within net real estate revenues. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented as net gains or losses from revaluation of investment properties.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to propertyand equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met. Land, office buildings and service centres are classified in land and building category and are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, land, office buildings and service centres 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 once in every three years, unless there is a sign of material change in fair value on the market.

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

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the devalued 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 commences from the date the asset is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Office buildings and service centers	Up to 100
Furniture and fixtures	10
Computers and equipment	5-10
Motor vehicles	5

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

Assets under construction are stated at cost and are not depreciated until the time they are available for use and reclassified to respective group of property and equipment.

Leasehold improvements are depreciated over the life of the related leased asset or the expected lease term if lower.

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

3. Summary of Significant Accounting Policies (continued)

Goodwill Impairment

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

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

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

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

Intangible assets

The Group's 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 amortisation and any accumulated impairment losses. The economic lives of intangible assets are assessed to be finite and amortised over 4 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets are reviewed at least at each financial year-end.

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 the asset and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Provisions

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.

Provisions for the risk of incurring losses on off-balance sheet commitments is estimated regularly based on the past history of actual losses incurred on these commitments.

Retirement and other employee benefit obligations

The Group provides management and employees of the Group with private pension plans. These are defined contribution pension plans covering substantially all full-time employees of the Group. The Group collects contributions in the size of 2% of full-time employees' salaries, of which 1% is deducted from the salaries and the other 1% - additionally paid by the Group. When an employee reaches the pension age, aggregated contributions, plus any earnings earned on the employee's behalf are paid to the employee according to the schedule agreed with the employee. Aggregated amounts are distributed during the period when the employee will receive accumulated contributions. Respective pension benefit obligations are recorded within other liabilities, Note 16.

3. Summary of Significant Accounting Policies (continued)

Share-based payment transactions

Employees (including senior executives) of the Group receive share-based remuneration, whereby employees render services as consideration for the equity instruments ('equity settled transactions').

Equity-settled transactions

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

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

No expense is recognised for the awards that do not ultimately vest except for the awards where vesting is conditional upon market conditions (a condition linked to the price of BGEO's shares) which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

Where an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as the replacement award on the date that it is granted, the cancelled and the new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Share capital

Share capital

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

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at par value, with adjustment of premiums against 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 consolidated financial statements are authorised for issue.

Contingencies

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

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission incomes and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Customer loyalty program

Customer loyalty program points accumulated in the business are treated as deferred revenue and recognized in revenues gradually as they are earned. The Group recognizes gross revenue earned from customer loyalty program when the performance obligation is satisfied i.e. when the customer redeems the points or the points expire, where the Group acts as a principal. Conversely, the Group measures its revenue as the net amount retained on its account representing the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards as soon as the award credits are granted, where the Group acts as an agent. At each reporting date the Group estimates portion of accumulated points that is expected to be utilized by customers based on statistical data. These points are treated as liability in the statement of financial position and are only recognized in revenue when points are earned or expired.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

3. Summary of Significant Accounting Policies (continued)

Income and expense recognition (continued)

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. The Group defines non-recurring income or expense as an income or expense triggered by or originated from an economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of future results.

Functional, reporting currencies and foreign currency translation

The consolidated financial statements are presented in Georgian Lari, which is the Group's presentation currency. The Bank's functional currency is Georgian Lari. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies – translation differences. 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. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Differences between the contractual exchange rate of a certain transaction and the NBG exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBG exchange rates at 31 December 2017, 31 December 2016 and 31 December 2015 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2017	3.5005	2.5922	3.1044	1.3083
31 December 2016	3.2579	2.6468	2.794	1.3532
31 December 2015	3.5492	2.3949	2.6169	1.2904

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Georgian Lari at the rate of exchange ruling at the reporting date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in other comprehensive income relating to that particular entity is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the rate at the reporting date.

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies

The nature and the effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for the periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and is applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases continue to fall outside the scope of IFRS 15 and are regulated by the other applicable standards. 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 standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. IFRS 15 can be adopted using either a full retrospective or a modified retrospective approach.

The Group early adopted the new revenue recognition standard effective from 1 January 2017 using the modified retrospective approach. The impact of early adoption was GEL 10,827 decrease of retained earnings, with corresponding increase of accruals and deferred income and decrease in deferred tax liabilities.

The Group's revenue streams affected by transition to IFRS 15 included fee and commission income from credit card transactions and fee and commission income under certain transactions involving loyalty programs. For revenue streams, part of the revenue was deferred under IFRS 15 requirements until satisfaction of respective performance obligations, which are expected over the anticipated term of credit cards issued and settlement or expiration of bonus points under loyalty programs.

The details of adjustments to opening retained earnings and other accounts:

	31 December 2016	Effect of IFRS 15 adoption	31 December 2017
Liabilities			
Other liabilities	55,103	12,738	67,841
Deferred income tax liabilities	22,169	(1,911)	20,258
Other	9,422,516	-	9,422,516
Total liabilities	9,499,788	10,827	9,510,615
Total equity	1,233,144	(10,827)	1,222,317

In accordance with new revenue standard requirements, the disclosure of the impact of adoption on the Group's consolidated income statement and financial position for the year ended 31 December 2017 were as follows:

Extract from Consolidated Income Statement for the year end 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Fee and commission income	191,000	195,932	(4,932)
Fee and commission expense	(74,730)	(74,730)	-
Net fee and commission income	116,270	121,202	(4,932)
Other	745,784	745,784	-
Revenue	862,054	866,986	(4,932)
Other expenses	(323,369)	(323,369)	-
Operating income before cost of credit risk	538,685	543,617	(4,932)
Profit for the year	338,907	343,839	(4,932)

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

Extract from Consolidated Statement of Financial Position as at 31 December 2017	As reported	Amount without IFRS 15 adoption	Effect of change
Liabilities			
Other liabilities	80,157	62,487	17,670
Deferred income tax liabilities	11,342	13,253	(1,911)
Other	11,047,298	11,047,298	-
Total liabilities	11,138,797	11,123,038	15,759
Total equity	1,481,919	1,497,678	(15,759)
Total liabilities and total equity	12,620,716	12,620,716	-

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for current period in Note 18.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group evaluated the impact and concluded that the amendment has no effect on the Group's financial position and performance.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect Group's financial information.

IAS 16 Proeprty , Plant and Equipment

In 2017, the Group changed its accounting policy with respect to office buildings and service centres. The Group now applies the cost model, where assets are carried at cost less accumulated depreciation and any accumulated impairment. Prior to this change in policy, the Group applied the revaluation model, where office buildings and service centres were carried at the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group believes that cost model provides more reliable and more meaningful presentation for investors because (1) it enhances comparability for the investors as the application of the cost model is a market practice across the banking industry and (2) it more closely aligns the accounting with the business model around these asset categories. The cost model has been applied by restating each of the affected consolidated financial statement line items for the prior periods, as follows:

3. Summary of Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations and voluntary changes in accounting policies (continued)

Impact on equity (increase/(decrease) in equity):

	31 December 2016	31 December 2015	1 January 2015
Assets			
Property and equipment	(32,875)	(34,634)	(45,190)
Liabilities:			
Income tax liabilities	(73)	(4,958)	(6,405)
Equity:			
Retained earnings	(6,501)	(5,855)	(1,230)
Other reserves	(25,433)	(22,708)	(35,695)
Non-controlling interests	(868)	(1,113)	(1,860)
Net impact on equity	(32,802)	(29,676)	(38,785)

	2016	2015
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
– Gain(loss) from currency translation differences	(346)	2,774
Income tax impact	(58)	(1,047)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
– Revaluation of property and equipment	2,105	7,782
Income tax impact	(4,827)	(400)
Net impact on other comprehensive income	(3,126)	9,109

The change in accounting policy of office buildings and service centres did not have a material impact on the Group's consolidated income statement for the years ended 31 December 2016 and 2015.

Standards issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted. Such standards that are expected to have an impact on the Group, or the impacts of which are currently being assessed, are as follows:

IFRS 9 Financial Instruments

Introduction

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 for annual periods on or after 1 January 2018, with early application permitted. In 2016, the Group set up a multidisciplinary implementation team with members from Risk, Finance and Operations teams and hired an external consultant to initiate the implementation of IFRS 9. The project was sponsored by Chief Risk and Chief Financial Officers who provided regular updates to the Group's Management Board. Implementation consisted of six key phases: the initial assessment and analysis, design, build, testing, parallel running and go live. Currently the Group has completed the IFRS 9 implementation programme including building of the new expected credit loss model and approving the IFRS 9 accounting policy across the Group.

The Group will adopt the new standard from the effective date by recognizing the estimated impact from adoption in opening retained earnings on 1 January 2018 and as allowed by IFRS 9 will not restate comparative information. Based on the data as at 31 December 2017, the Group estimates that the adoption of IFRS 9 will result in a pre-tax decrease in shareholders' equity as at 1 January 2018 of approximately GEL 31,514. IFRS 9 is not expected to have an impact on regulatory capital and capital adequacy ratios (regulatory capital requirements in Georgia are set by the National Bank of Georgia and are applied to the Bank on a stand-alone basis).

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

(a) Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, expect equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: Fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) with recycling to profit or loss upon disposal for debt instruments, fair value through other comprehensive income (FVOCI) without recycling to profit or loss for equity instruments and amortized cost. IFRS 9 will allow entities to continue to irrevocably designate instruments that qualify for amortized cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting treatment for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement unless an accounting mismatch in profit or loss would arise.

The Group expects to continue measuring at fair value all financial assets currently held at fair value. Investments in debt securities and equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income will continue to be measured at fair value through other comprehensive income. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortised cost.

(b) Impairment of financial assets

IFRS 9 requires the Group to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortised cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL. The Group has determined that the allowance for impairment will increase by GEL 31,197.

In summary, the pre-tax impact of IFRS 9 adoption is expected to be, as follows:

Pre-tax impact on equity (increase/(decrease)) as of 31 December 2017:

	Adjustment	Amount
Assets		
Cash and cash equivalents	(b)	(80)
Amounts due from credit institutions	(b)	(598)
Loans to customers and finance lease receivables	(b)	(30,519)
Other assets	(b)	3
Total assets		(31,194)
Liabilities		
Other liabilities - provisions	(b)	320
Total equity attributable to shareholders of the Bank	(b)	(31,514)
Total equity		(31,514)

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is currently evaluating the impact.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Amendment is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

The amendments should be applied prospectively and are effective for periods beginning on or after 1 January 2019, although earlier application is permitted. The Group does not expect a material effect from application of these amendments.

3. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective (continued)

IAS 12, Income Taxes

The amendment to IAS 12 clarifies that the income tax consequences (if any) of dividends as defined in IFRS 9 (i.e. distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:
• at the same time as the liability to pay those dividends is recognised; and
• in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

The amendment to IAS 12 is effective for periods beginning on or after 1 January 2019, although earlier application is permitted. Entities must apply the amendment to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period presented. The Group is currently assessing the impact.

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. The Group does not expect a material effect from application of these amendments.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its combined financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group is currently assessing the impact.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the board of directors and management use their judgment and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 28).

Measurement of fair value of investment properties

The fair value of investment properties is determined by independent professionally qualified appraisers. Fair value is determined using a combination of the internal capitalization method (also known as discounted future cash flow method) and the sales comparison method.

The Group performs valuation of its investment properties with a sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Results of this valuation are presented in note 12, while valuation inputs and techniques are presented in note 28. The Group's properties are specialized in nature and spread across the different parts of the country. While the secondary market in Georgia provides adequate market information for fair value measurements for small and medium sized properties, valuation of large and unique properties involves application of various observable and unobservable inputs to determine adjustments to the available comparable sale prices. These estimates and assumptions are based on the best available information, however, actual results could be different.

Allowance for impairment of loans and finance lease receivables

The Group regularly reviews its loans and finance lease receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and finance lease receivables. The Group uses its judgment to adjust observable data for a group of loans and finance lease receivables to reflect current circumstances.

The Group considers the fair value of collateral when estimating the amount of impairment loss for collateralized loans and finance lease receivables. Management monitors market value of collateral on a regular basis. Management uses its expert judgment or independent opinion to adjust the fair value to reflect current conditions. The amount and type of collateral required depends on the assessment of credit risk of the counterparty.

Information about allowance for impairment of loans and finance lease receivables is presented in Notes 10 and 11.

5. Business Combinations

Acquisition of Georgian Leasing Company LLC

On 30 June 2017, the Group acquired 100% of interest in Georgian Leasing Company ("GLC") for total consideration of GEL 10,066. The Group views the acquisition as a transaction between entities under common control and therefore, has elected to apply the pooling of interest method for accounting purposes. The difference between the cost of the transaction and the carrying value of the net assets is recorded in other reserves.

The carrying value of identifiable assets and liabilities of GLC as at the date of acquisition was:

	Provisional fair value recognized on acquisition
Cash and cash equivalents	1,933
Finance lease receivables	33,618
Property and equipment	2,479
Other assets	18,943
	56,973
Amounts due to credit institutions	22,107
Debt securities issued	24,630
Accruals for employee compensation	3,795
Other liabilities	1,233
	51,765
Total identifiable net assets	5,208
Other reserves	4,858
Consideration given[2]	10,066

	2017
Cash paid	(10,066)
Cash acquired with the subsidiary	1,933
Net cash outflow	(8,133)

Had the acquisition occurred as of the beginning of the reporting period, the Group's revenue and profit would not have been affected significantly.

The business combinations under common control are accounted for using pooling of interest method. On the date of acquisition, the assets and liabilities acquired are recognized at carrying amounts and no adjustments are made to reflect fair values at the date of combination. The difference between consideration transferred and net assets acquired is recorded as an adjustment to the equity. No goodwill is recognized as a result of business combination under common control.

6. Segment Information

For management purposes, the Group is organised into the following operating segments based on products and services as follows:

Retail Banking - Principally providing consumer loans, mortgage loans, overdrafts, credit card facilities and other credit facilities as well as funds transfer and settlement services, and handling customers' deposits for both, individuals as well as legal entities, encompassing mass affluent segment, retail mass markets, small & medium enterprises and micro businesses;

Corporate Banking - Principally providing loans and other credit facilities to high net worth individuals as well as other legal entities, larger than SME and Micro, as well as providing funds transfers and settlement services, trade finance services and documentary operations support, handling saving and term deposits for corporate and institutional customers;

Investment Management - Principally providing private banking services to resident and non-resident wealthy individuals as well as their direct family members by ensuring an individually tailored approach and exclusivity in rendering common banking services such as fund transfers, currency exchange or settlement operations, or holding their savings and term deposits; Investment Management involves providing wealth and asset management services to the same individuals through differing investment opportunities and specifically designed investment products. It also encompasses corporate advisory services;

BNB - Comprising JSC Belarusky Narodny Bank, principally providing retail and corporate banking services in Belarus.

Other - Comprising several small corporate and social responsibility companies.

Management monitors the operating results of its segments 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 consolidated financial statements.

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

The Group's operations are primarily concentrated in Georgia, except for BNB, which operates in Belarus.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2017, 2016 or 2015.

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2017:

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	110,384	480,241	24,482	29,397	9	34	644,547
Net fees and commission income	22,787	83,418	729	9,336	-	-	116,270
Net real estate gain (loss)	4,350	1,587	(475)	412	-	(195)	5,679
Net gains from foreign currencies	44,601	27,940	2,347	10,852	-	-	85,740
Other revenues	4,366	3,605	485	1,362	-	-	9,818
Revenue	186,488	596,791	27,568	51,359	9	(161)	862,054
Operating expenses	(61,113)	(224,892)	(9,894)	(27,063)	(568)	161	(323,369)
Operating income (expense) before cost of credit risk	125,375	371,899	17,674	24,296	(559)	-	538,685
Cost of credit risk	(48,698)	(110,562)	4	(9,093)	-	-	(168,349)
Net operating income (loss) before non-recurring items	76,677	261,337	17,678	15,203	(559)	-	370,336
Net non-recurring items	(749)	(2,584)	(196)	(60)	-	-	(3,589)
Profit before income tax benefit (expense)	75,928	258,753	17,482	15,143	(559)	-	366,747
Income tax expense	(5,404)	(18,870)	(1,309)	(2,257)	-	-	(27,840)
Profit (Loss) for the year	70,524	239,883	16,173	12,886	(559)	-	338,907
Assets and liabilities							
Total assets	4,246,985	7,707,139	36,398	624,835	22,465	(17,106)	12,620,716
Total liabilities	3,709,073	6,877,763	23,547	545,315	205	(17,106)	11,138,797
Other segment information							
Property and equipment	5,531	41,915	568	1,464	-	-	49,478
Intangible assets	2,532	18,819	218	999	-	-	22,568
Capital expenditure	8,063	60,734	786	2,463	-	-	72,046
Depreciation	(3,539)	(26,086)	(423)	(858)	-	-	(30,906)
Amortization	(874)	(6,321)	(73)	(240)	-	-	(7,508)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2016:

	Corporate banking	Retail banking	Investment management	BNB	Other	Intersegment transactions and balances	Total
Net interest income	113,052	371,060	20,294	30,773	3	-	535,182
Net fees and commission income	25,346	76,372	710	7,462	-	-	109,890
Net real estate gain (loss)	5,845	2,596	(7)	392	-	(195)	8,631
Net gains (losses) from foreign currencies	45,792	26,605	2,920	8,452	(1)	-	83,768
Other revenues	2,577	785	579	(1,130)	-	(592)	2,219
Revenue	192,612	477,418	24,496	45,949	2	(787)	739,690
Operating expenses	(52,839)	(185,478)	(9,503)	(20,905)	336	787	(267,602)
Operating income (expense) before cost of credit risk	139,773	291,940	14,993	25,044	338	-	472,088
Cost of credit risk	(70,075)	(75,690)	419	(15,797)	-	-	(161,143)
Net operating income (loss) before non-recurring items	69,698	216,250	15,412	9,247	338	-	310,945
Net non-recurring items	(13,559)	(32,647)	(1,545)	(1,418)	-	-	(49,169)
Profit (loss) before income tax (expense) benefit from continuing operations	56,139	183,603	13,867	7,829	338	-	261,776
Income tax benefit (expense)	10,067	21,733	1,090	(5,141)	(431)	-	27,318
Profit (Loss) for the year from continuing operations	66,206	205,336	14,957	2,688	(93)	-	289,094
(Loss) Profit from discontinued operations	-	-	-	-	-	-	-
Profit (Loss) for the year	66,206	205,336	14,957	2,688	(93)	-	289,094
Assets and liabilities							
Total assets	4,139,060	5,987,954	49,726	544,727	27,372	(15,907)	10,732,932
Total liabilities	3,661,784	5,343,030	34,941	475,256	684	(15,907)	9,499,788
Other segment information							
Property and equipment	4,326	28,716	459	1,407	67	-	34,975
Intangible assets	1,368	9,042	115	300	-	-	10,825
Capital expenditure	5,694	37,758	574	1,707	67	-	45,800
Depreciation	(3,638)	(24,150)	(448)	(917)	-	-	(29,153)
Amortization	(716)	(4,731)	(60)	(223)	-	-	(5,730)

(Thousands of Georgian Lari)

6. Segment Information (continued)

The following tables present income statement and certain asset and liability information regarding the Group's operating segments as at and for the year ended 31 December 2015:

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*P&C*	*GHG*	*M2*	*Liberty Consumer*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income (expense)	134,031	322,711	20,008	29,890	-	-	-	-	(583)	-	506,057
Net fees and commission income	31,178	63,818	900	9,198	-	-	-	-	-	-	105,094
Net real estate gain	5,531	5,941	69	485	-	-	-	-	-	(195)	11,831
Net gains (losses) from foreign currencies	32,681	14,488	1,614	17,036	-	-	-	-	(1)	-	65,818
Other revenues	2,819	3,604	87	1,713	-	-	-	-	(1)	-	8,222
Revenue	206,240	410,562	22,678	58,322	-	-	-	-	(585)	(195)	697,022
Operating expenses	(50,381)	(161,312)	(9,109)	(19,731)	-	-	-	-	(417)	195	(240,755)
Operating income (expense) before cost of credit risk	155,859	249,250	13,569	38,591	-	-	-	-	(1,002)	-	456,267
Cost of credit risk	(55,312)	(75,407)	(453)	(19,270)	-	-	-	-	-	-	(150,442)
Net operating income (loss) before non-recurring items	100,547	173,843	13,116	19,321	-	-	-	-	(1,002)	-	305,825
Net non-recurring items	(2,838)	(8,962)	(337)	1,478	-	-	-	-	-	-	(10,659)
Profit (loss) before income tax (expense) benefit from continuing operations	97,709	164,881	12,779	20,799	-	-	-	-	(1,002)	-	295,166
Income tax (expense) benefit	(14,605)	(23,412)	(2,049)	(2,753)	-	-	-	-	97	-	(42,722)
Profit (Loss) for the year from continuing operations	83,104	141,469	10,730	18,046	-	-	-	-	(905)	-	252,444
Profit (Loss) from discontinued operations	(1,518)	1,593	2,919	-	69	17,995	(2,408)	(1,978)	(8,394)	-	8,278
Profit (Loss) for the year	81,586	143,062	13,649	18,046	69	17,995	(2,408)	(1,978)	(9,299)	-	260,722
Assets and liabilities											
Total assets	3,858,745	4,543,768	89,567	469,318	-	-	-	-	14,887	(7,374)	8,968,911
Total liabilities	3,245,177	3,091,788	1,056,127	388,096	-	-	-	-	166	(7,374)	7,773,980
Other segment information											
Property and equipment	5,684	41,774	941	1,193	319	30,904	462	1,291	159	-	82,727
Intangible assets	870	5,753	63	598	621	1,678	-	12	7	-	9,602
Capital expenditure	6,554	47,527	1,004	1,791	940	32,582	462	1,303	166	-	92,329
Depreciation	(3,389)	(23,453)	(414)	(898)	(244)	(5,275)	(82)	(755)	-	-	(34,510)
Amortization	(688)	(4,166)	(54)	(140)	(187)	(121)	(10)	(5)	-	-	(5,371)

(Thousands of Georgian Lari)

7. Cash and Cash Equivalents

	2017	2016	2015
Cash on hand	464,877	478,256	447,015
Current accounts with central banks, excluding obligatory reserves	91,692	150,152	152,455
Current accounts with other credit institutions	181,131	446,142	415,463
Time deposits with credit institutions with maturity of up to 90 days	763,954	412,620	361,849
Cash and cash equivalents	1,501,654	1,487,170	1,376,782

As at 31 December 2017 GEL 929,676 (2016: GEL 812,798, 2015: GEL 661,543) was placed on current and time deposit accounts with internationally recognised OECD banks and central banks that are the counterparties of the Group in performing international settlements. The Group earned up to 2.00% interest per annum on these deposits (2016: up to 0.90%, 2015: up to 0.59%). Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents, and there are no material differences between their book and fair values.

8. Amounts Due from Credit Institutions

	2017	2016	2015
Obligatory reserves with central banks	1,000,565	934,996	620,287
Time deposits with maturity of more than 90 days	209,227	38	29
Deposits pledged as security for open commitments	-	-	96,405
Inter-bank loan receivables	6,551	5,451	1,956
Amounts due from credit institutions	1,216,343	940,485	718,677

Obligatory reserves with central banks represent amounts deposited with the NBG and National Bank of the Republic of Belarus (the "NBRB"). Credit institutions are required to maintain cash deposit (obligatory reserve) with the NBG and with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw these deposits is restricted by the regulation. The Group earned up to 1.00% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2017 (2016: 0.25%, 2015: nil).

As at 31 December 2017 inter-bank loan receivables include GEL 6,551 (2016: GEL 2,164, 2015: GEL 1,956) placed with non-OECD banks.

9. Investment Securities Available-for-Sale

	2017	2016	2015
Georgian ministry of Finance treasury bonds*	847,839	811,531	575,590
Georgian ministry of Finance treasury bills**	77,460	88,411	165,545
Certificates of deposit of central banks***	73,415	24,015	76,807
Other debt instruments****	614,844	359,650	84,003
Corporate shares	201	295	295
Investment securities available-for-sale	1,613,759	1,283,902	902,240

** GEL 448,558 was pledged for short-term loans from the NBG (2016: GEL 712,169, 2015: GEL 229,800).*
*** GEL Nil was pledged for short-term loans from the NBG(2016: GEL 55,842, 2015: GEL 3,805).*
**** GEL Nil was pledged for short-term loans from the NBG (2016: GEL 9,402, 2015: 2,966);*
***** GEL 475,735 was pledged for short-term loans from the NBG (2016:GEL 286,832, 2015:GEL 79,187) .*

Other debt instruments as at 31 December 2017 mainly comprises GEL denominated bonds issued by European Bank for Reconstruction and Development of GEL 268,057 (2016: GEL 133,055, 2015: GEL 50,666), GEL denominated bonds issued by the International Finance Corporation of GEL 110,862, (2016: GEL 28,402, 2015: 28,460), GEL denominated bonds issued by the Asian Development Bank of GEL 65,245 (2016: GEL 64,921, 2015: Nil), GEL denominated bonds issued by the Black Sea Trade and Development Bank of GEL 60,625 (2016: GEL 60,454, 2015:Nil), USD denominated bonds issued by an internationally recognized investment bank of GEL 26,666 (2016: Nil, 2015: Nil) and other GEL 83,389 (2016: 72,818, 2015: 4,877).

(Thousands of Georgian Lari)

10. Loans to Customers

	2017	2016	2015
Commercial loans	2,412,513	2,473,016	2,439,276
Consumer loans	1,751,106	1,367,228	1,165,107
Micro and SME loans	1,776,044	1,493,937	1,041,929
Residential mortgage loans	1,712,515	1,234,176	814,344
Gold – pawn loans	67,940	60,685	61,140
Loans to customers, gross	7,720,118	6,629,042	5,521,796
Less – Allowance for loan impairment	(274,540)	(249,077)	(198,909)
Loans to customers, net	7,445,578	6,379,965	5,322,887

Allowance for loan impairment

Movements of the allowance for impairment of loans to customers by class are as follows:

	Commercial loans 2017	Consumer loans 2017	Residential mortgage loans 2017	Micro and SME loans 2017	Total 2017
At 1 January	156,067	58,785	3,891	30,334	249,077
Charge	41,659	80,607	2,700	31,592	156,558
Recoveries	9,979	23,485	8,151	11,177	52,792
Write-offs	(35,053)	(74,027)	(9,912)	(32,267)	(151,259)
Accrued interest on written-off loans	(10,746)	(16,649)	(768)	(4,141)	(32,304)
Currency translation differences	18	(143)	-	(199)	(324)
At 31 December	161,924	72,058	4,062	36,496	274,540
Individual impairment	153,340	1,019	2,427	23,621	180,407
Collective impairment	8,584	71,039	1,635	12,875	94,133
	161,924	72,058	4,062	36,496	274,540
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	310,308	2,178	14,671	53,117	380,274

	Commercial loans 2016	Consumer loans 2016	Residential mortgage loans 2016	Micro and SME loans 2016	Total 2016
At 1 January	125,327	51,017	6,061	16,504	198,909
Charge	71,763	64,099	3,899	15,605	155,366
Recoveries	3,525	21,632	4,003	7,084	36,244
Write-offs	(41,624)	(65,597)	(8,597)	(10,317)	(126,135)
Accrued interest on written-off loans	(3,901)	(12,463)	(1,475)	(641)	(18,480)
Currency translation differences	977	97	-	2,099	3,173
At 31 December	156,067	58,785	3,891	30,334	249,077
Individual impairment	143,312	1,977	2,272	23,704	171,265
Collective impairment	12,755	56,808	1,619	6,630	77,812
	156,067	58,785	3,891	30,334	249,077
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	462,607	2,778	11,869	51,118	528,372

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Allowance for loan impairment (continued)

	Commercial loans 2015	*Consumer loans 2015*	*Residential mortgage loans 2015*	*Micro and SME loans 2015*	*Total 2015*
At 1 January	72,885	23,648	2,993	4,254	103,780
Charge	59,085	62,638	3,410	17,681	142,814
Recoveries	4,331	21,079	3,066	5,209	33,685
Write-offs	(10,324)	(47,075)	(2,847)	(10,694)	(70,940)
Accrued interest on written-off loans	(1,086)	(9,035)	(561)	(992)	(11,674)
Currency translation differences	436	(238)	-	1,046	1,244
At 31 December	125,327	51,017	6,061	16,504	198,909
Individual impairment	118,960	1,850	4,380	13,745	138,935
Collective impairment	6,367	49,167	1,681	2,759	59,974
	125,327	51,017	6,061	16,504	198,909
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	330,084	3,136	15,902	27,421	376,543

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2017 comprised GEL 20,510 (2016: GEL 31,433, 2015: GEL 22,234).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, equipment and machinery, corporate shares, inventory, trade receivables and third party corporate guarantees.
- For retail lending, mortgages over residential properties, cars, gold and jewellery and third party corporate guarantees.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Without taking into account discounted value of collateral, allowance for loan impairment would be GEL 253,818 higher as at 31 December 2017 (2016: GEL 322,880, 2015: GEL 176,759 higher).

Concentration of loans to customers

As at 31 December 2017, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 671,120 accounting for 9% of the gross loan portfolio of the Group (2016: GEL 580,343 and 9% respectively, 2015: GEL 708,839 and 13% respectively). An allowance of GEL 41,207 (2016: GEL 17,203, 2015: GEL 2,484) was established against these loans.

As at 31 December 2017, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 860,946 accounting for 11% of the gross loan portfolio of the Group (2016: GEL 965,964 and 15% respectively, 2015: GEL 1,128,146 and 20% respectively). An allowance of GEL 73,269 (2016: GEL 35,049, 2015: GEL 41,410) was established against these loans.

(Thousands of Georgian Lari)

10. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2017, 31 December 2016 and 31 December 2015 loans are principally issued within Georgia, and their distribution by industry sector was as follows:

	2017	*2016*	*2015*
Individuals	4,297,115	3,336,523	2,482,334
Trade	808,335	807,020	723,776
Manufacturing	699,574	646,228	711,677
Real estate	432,352	423,124	354,325
Construction	368,509	304,890	178,641
Hospitality	283,527	233,891	168,011
Service	192,202	168,455	223,658
Transport & Communication	114,926	166,288	165,330
Mining and quarrying	104,799	114,115	127,706
Electricity, gas and water supply	84,727	34,835	77,633
Financial intermediation	51,597	139,092	88,779
Other	282,455	254,581	219,926
Loans to customers, gross	7,720,118	6,629,042	5,521,796
Less – allowance for loan impairment	(274,540)	(249,077)	(198,909)
Loans to customers, net	7,445,578	6,379,965	5,322,887

The following is a reconciliation of the individual and collective allowances for impairment losses on loans to customers for the years ended 31 December 2017, 31 December 2016 and 31 December 2015:

	2017			*2016*			*2015*		
	Individual impairment	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*	*Individual impairment*	*Collective impairment*	*Total*
	2017	*2017*	*2017*	*2016*	*2016*	*2016*	*2015*	*2015*	*2015*
At 1 January	171,265	77,812	249,077	138,935	59,974	198,909	71,381	32,399	103,780
Charge for the year	58,823	97,735	156,558	74,051	81,315	155,366	94,883	47,931	142,814
Recoveries	10,948	41,844	52,792	7,880	28,364	36,244	9,994	23,691	33,685
Write-offs	(49,554)	(101,705)	(151,259)	(46,994)	(79,141)	(126,135)	(34,722)	(36,218)	(70,940)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)	(5,394)	(13,086)	(18,480)	(3,617)	(8,057)	(11,674)
Currency translation differences	(307)	(17)	(324)	2,787	386	3,173	1,016	228	1,244
At 31 December	180,407	94,133	274,540	171,265	77,812	249,077	138,935	59,974	198,909

(Thousands of Georgian Lari)

11. Finance Lease Receivables

	2017	2016	2015
Minimum lease payments receivable	83,008	17,794	17,757
Less – Unearned finance lease income	(15,322)	(3,199)	(2,196)
	67,686	14,595	15,561
Less – Allowance for impairment	(2,380)	(1,499)	(1,551)
Finance lease receivables, net	65,306	13,096	14,010

The difference between the minimum lease payments to be received in the future and the finance lease receivables represents unearned finance income.

As at 31 December 2017, the concentration of investment in the five largest lease receivables comprised GEL 4,403 or 7% of total finance lease receivables (2016: GEL 5,773 or 40%, 2015: GEL 4,499 or 29%) and finance income received from it for the year ended 31 December 2017 comprised GEL 755 or 8% of total finance income from lease (2016: GEL 866 or 30%, 2015: GEL 325 or 11%).

Future minimum lease payments to be received after 31 December 2017, 31 December 2016 and 31 December 2015 are as follows:

	2017	2016	2015
Within 1 year	43,782	8,075	11,107
From 1 to 5 years	34,224	9,719	6,650
More than 5 years	5,002	-	-
Minimum lease payment receivables	83,008	17,794	17,757

Movements of the allowance for impairment of finance lease receivables are as follows:

	Finance lease receivables 2017	Finance lease receivables 2016	Finance lease receivables 2015
At 1 January	1,499	1,551	729
Charge	475	161	1,676
Amounts written-off	(299)	(293)	(153)
Reorganization	758	-	(521)
Currency translation differences	(53)	80	(180)
At 31 December	2,380	1,499	1,551
Individual impairment	1,152	1,263	1,367
Collective impairment	1,228	236	184
	2,380	1,499	1,551
Gross amount of lease receivables, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,593	2,475	1,808

(Thousands of Georgian Lari)

12. Investment Properties

	2017	2016	2015
At 1 January	152,596	135,453	190,860
Additions*	69,330	25,734	49,403
Disposals	(11,067)	(4,455)	(19,492)
Reorganization	-	-	(89,960)
Business combination	-	-	705
Net gains (losses) from revaluation of investment property	7,336	(1,221)	6,388
Transfers from (to) property and equipment and other assets**	(15,939)	(3,225)	2,844
Currency translation differences	278	310	(5,295)
At 31 December	202,534	152,596	135,453

** All additions of 2017 and 2016 comprise foreclosed properties, no cash transactions were involved. GEL 11,587 paid in 2015 for acquisition of properties by the Group's former Real Estate business for development. The remaining additions of 2015 comprise foreclosed properties, no cash transactions were involved.*
*** Comprised of GEL 4,449 transfer to property and equipment (2016: transfers to property and equipment GEL 351 and 2015: transfers from property and equipment GEL 1,637 respectively), Nil transfer to other assets - inventories (2016 transfers to other assets GEL 1,336 and 2015: transfer from other assets – inventories GEL 1,608) and GEL 11,490 transfer to finance lease receivables (2016: transfer to finance lease receivable GEL 1,538 and 2015: transfer from finance lease receivable GEL 401).*

Investment properties are stated at fair value. The fair value represents the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. As at 31 December 2017 the fair values of the properties are based on valuations performed by accredited independent valuers. Refer to Note 28 for details on fair value measurements of investment properties.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

13. Property and Equipment

The movements in property and equipment during the year ended 31 December 2017 were as follows:

	Land, office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2016*	186,520	178,144	63,770	6,270	14,746	4,785	454,235
Additions	-	20,818	12,834	1,079	80	14,667	49,478
Business combination, Note 5	2,399	18	17	45	-	-	2,479
Disposals	(1,871)	(316)	(191)	(148)	(3,779)	-	(6,305)
Transfers	13,104	4	121	-	7,007	(20,236)	-
Transfers from (to) investment properties	(4,115)	-	-	206	-	8,305	4,396
Transfers from (to) other assets	40	(735)	(1,365)	-	232	153	(1,675)
Revaluation	3,197	-	-	-	-	286	3,483
Currency translation differences	22	(64)	(117)	(9)	(18)	(83)	(269)
31 December 2017	199,296	197,869	75,069	7,443	18,268	7,877	505,822
Accumulated impairment							
31 December 2016	2,509	40	86	7	-	-	2,642
Currency translation differences	(37)	(2)	(3)	-	-	-	(42)
31 December 2017	2,472	38	83	7	-	-	2,600
Accumulated depreciation							
31 December 2016*	19,123	102,675	43,446	3,210	5,745	-	174,199
Depreciation charge	2,091	16,024	8,003	1,063	3,725	-	30,906
Transfers to investment properties	(53)	-	-	-	-	-	(53)
Currency translation differences	(325)	-	(33)	-	(5)	-	(363)
Transfers (to) from other assets	(171)	(1,238)	(1,242)	-	-	-	(2,651)
Disposals	(402)	(192)	(129)	(118)	(3,449)	-	(4,290)
31 December 2017	20,263	117,269	50,045	4,155	6,016	-	197,748
Net book value:							
31 December 2016*	164,888	75,429	20,238	3,053	9,001	4,785	277,394
31 December 2017	176,561	80,562	24,941	3,281	12,252	7,877	305,474

** Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3*

(Thousands of Georgian Lari)

13. Property and Equipment (continued)

The movements in property and equipment during the year ended 31 December 2016 were as follows:

	Land, office buildings & service centres	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2015*	182,955	161,806	55,124	6,398	13,758	3,804	423,845
Additions	-	17,156	9,326	2,164	87	6,242	34,975
Disposals	-	(126)	(53)	(2,319)	(2,800)	-	(5,298)
Transfers	2,174	25	25	-	3,684	(5,908)	-
Transfers from investment properties	351	-	-	-	-	-	351
Transfers from (to) other assets	-	(760)	(857)	1	-	504	(1,112)
Currency translation differences	1,040	43	205	26	17	143	1,474
31 December 2016*	186,520	178,144	63,770	6,270	14,746	4,785	454,235
Accumulated impairment							
31 December 2015	780	37	82	7	-	9	915
Impairment charge	1,403	-	-	-	-	-	1,403
Currency translation differences	326	3	4	-	-	(9)	324
31 December 2016	2,509	40	86	7	-	-	2,642
Accumulated depreciation							
31 December 2015*	15,976	87,263	37,077	3,912	5,644	-	149,872
Depreciation charge	2,638	15,873	7,020	903	2,719	-	29,153
Currency translation differences	509	2	82	20	(13)	-	600
Transfers from (to) other assets	-	(414)	(694)	-	-	-	(1,108)
Disposals	-	(49)	(39)	(1,625)	(2,605)	-	(4,318)
31 December 2016*	19,123	102,675	43,446	3,210	5,745	-	174,199
Net book value:							
31 December 2015*	166,199	74,506	17,965	2,479	8,114	3,795	273,058
31 December 2016*	164,888	75,429	20,238	3,053	9,001	4,785	277,394

** Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3*

The movements in property and equipment during the year ended 31 December 2015 were as follows:

	Land, office buildings & service centres	Hospitals & Clinics	Furniture & fixtures	Computers & equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost								
31 December 2014*	197,618	207,038	140,130	130,810	7,566	12,751	9,599	705,512
Additions	4,888	6,540	21,692	29,314	2,596	3,494	14,203	82,727
Business combination	3,550	43,918	6,900	7,324	737	1,790	-	64,219
Disposals	(1,837)	(964)	(313)	(3,040)	(426)	(1,796)	-	(8,376)
Transfers	3,101	828	2,953	(1,546)	(923)	3,989	(8,402)	-
Reorganization	(21,266)	(257,360)	(8,948)	(106,472)	(3,073)	(6,393)	(5,028)	(408,540)
Transfers to investment properties	(1,637)	-	-	-	-	-	-	(1,637)
Transfers from (to) other assets	-	-	(343)	(736)	4	-	(6,231)	(7,306)
Currency translation differences	(1,462)	-	(265)	(530)	(83)	(77)	(337)	(2,754)
31 December 2015*	182,955	-	161,806	55,124	6,398	13,758	3,804	423,845
Accumulated impairment								
31 December 2014	3,611	-	40	109	6	-	-	3,766
Impairment charge	(1,473)	-	-	-	-	-	-	(1,473)
Reorganization	(66)	-	-	2	4	-	-	(60)
Transfers to investment properties	(1,040)	-	-	-	-	-	-	(1,040)
Currency translation differences	(252)	-	(3)	(29)	(3)	-	9	(278)
31 December 2015	780	-	37	82	7	-	9	915
Accumulated depreciation								
31 December 2014*	15,650	2,646	75,541	55,413	4,030	5,134	9	158,423
Depreciation charge	2,853	1,288	14,705	11,323	1,769	2,572	-	34,510
Reorganization	(1,438)	(3,908)	(3,163)	(30,036)	(1,599)	(751)	-	(40,895)
Transfers	(193)	58	615	(379)	(23)	(79)	-	(1)
Transfers to investment properties	(54)	-	-	-	-	-	-	(54)
Currency translation differences	(817)	-	(96)	(242)	(31)	(45)	(9)	(1,240)
Transfers from (to) other assets	-	-	(233)	(606)	3	-	-	(836)
Disposals	(25)	(84)	(106)	1,604	(237)	(1,187)	-	(35)
31 December 2015*	15,976	-	87,263	37,077	3,912	5,644	-	149,872
Net book value:								
31 December 2014*	178,357	204,392	64,549	75,288	3,530	7,617	9,590	543,323
31 December 2015*	166,199	-	74,506	17,965	2,479	8,114	3,795	273,058

** Certain amounts do not correspond to the 2016 consolidated financial statement as they reflect the adjustments made for change in accounting policy as described in Note 3*

(Thousands of Georgian Lari)

14. Goodwill

Movements in goodwill during the years ended 31 December 2017, 31 December 2016 and 31 December 2015, were as follows:

	2017	2016	2015
Cost			
1 January	57,209	57,209	78,083
Business combinations	-	-	11,922
Reorganization	-	-	(32,796)
At 31 December	57,209	57,209	57,209
Accumulated impairment			
1 January	23,756	23,756	28,450
Reorganization	-	-	(4,694)
At 31 December	23,756	23,756	23,756
Net book value:			
1 January	33,453	33,453	49,633
At 31 December	33,453	33,453	33,453

Impairment test for goodwill

Goodwill acquired through business combinations with indefinite lives have been allocated to two individual cash-generating units, for impairment testing: Corporate Banking and Retail Banking.

The carrying amount of goodwill allocated to each of the cash generating units ("CGU") is as follows:

	2017	2016	2015
Retail banking	23,488	23,488	23,488
Corporate banking	9,965	9,965	9,965
Total	33,453	33,453	33,453

(Thousands of Georgian Lari)

14. Goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amounts of the CGUs have been determined based on a value-in-use calculation, using cash flow projections based on financial budgets approved by senior management covering three-year period. Discount rates were not adjusted for either a constant or a declining growth rate beyond the three-year periods covered in financial budgets. For the purposes of the impairment test, a 3% permanent growth rate has been assumed when assessing the future operating cash flows of the CGUs.

The following discount rates were used by the Group for Corporate Banking and Retail Banking:

	Corporate Banking			Retail Banking		
	2017, %	*2016, %*	*2015, %*	*2017, %*	*2016, %*	*2015, %*
Discount rate	4.5%	5.3%	5.8%	6.1%	6.9%	6.7%

Discount rates

Discount rates reflect management's estimate of return required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using pre-tax weighted average cost of capital ("pre-tax WACC").

For the Retail and Corporate banking CGUs the following additional assumptions were made:

- Stable, business as usual growth of loans and deposits;
- No material changes in cost / income structure or ratio;
- Stable, business as usual growth of trade finance and other documentary businesses;
- Further expansion of the express banking businesses bringing more stable margins to retail banking.

Sensitivity to changes in assumptions

Management believes that reasonably possible changes to key assumptions used to determine the recoverable amount for each CGU will not result in an impairment of goodwill. The excess of value in use over carrying value is determined by reference to the net book value as at 31 December 2017. Possible change was taken as +/-1% in discount rate and growth rate.

15. Taxation

The corporate income tax benefit (expense) comprises:

	2017	*2016*	*2015*
Current income expense	(38,024)	(18,159)	(34,949)
Deferred income tax credit (expense)	10,184	45,477	(9,037)
Income tax credit (expense)	(27,840)	27,318	(43,986)
Income tax credit (expense) attributable to continuing operations	(27,840)	27,318	(42,722)
Income tax expense attributable to a discontinued operation	-	-	(1,264)
Deferred income tax (expense) credit from continuing operations in other comprehensive (loss) income	(1,332)	(5,019)	1,551
Deferred income tax expense from discontinued operations in other comprehensive income	-	-	-
Deferred income tax (expense) credit in other comprehensive income (loss)	(1,332)	(5,019)	1,551

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2017, 2016 and 2015 was as follows:

	2017	*2016*	*2015*
Currency translation differences	(578)	(4,996)	1,551
Net results of investment securities available-for-sale	27	(23)	-
Revaluation of buildings	(781)	-	-
Income tax (expense) credit in other comprehensive income	(1,332)	(5,019)	1,551

The income tax rate applicable to most of the Group's income is the income tax rate applicable to subsidiaries' income which ranges from 15% to 25% (2016: from 15% to 25%, 2015: from 15% to 25%).

In May 2016, the Parliament of Georgia approved a change in the current corporate taxation model, with changes applicable from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes are applicable to financial institutions, including banks and insurance businesses from 1 January 2019). The changed model implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status. The change had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognised temporary differences arising from prior periods. The Group considered the new regime as substantively enacted effective June 2016 and thus has re-measured its deferred tax assets and liabilities as at 31 December 2016. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2019 for financial businesses and has fully released the un-utilisable portion of deferred tax assets and liabilities. During the transitional period, between 1 January 2017 and 1 January 2019, no tax is payable on distributed profits from financial to non-financial businesses.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2017, 31 December 2016 and 31 December 2015 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2017	*2016*	*2015*
Profit before income tax expense from continuing operations	366,747	261,776	295,166
Net gain before income tax benefit from discontinued operations	-	-	9,543
Profit before income tax benefit (expense)	366,747	261,776	304,709
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	(55,012)	(39,266)	(45,706)
Tax at the domestic rates applicable to profits in each country	(1,273)	213	(237)
Non-taxable income	24,150	12,767	3,735
Correction of prior year declarations	4,645	2,726	649
Effect from change in tax legislation	-	52,495	-
Non-deductible expenses	(350)	(1,605)	(2,129)
Other	-	(12)	(298)
Income tax benefit (expense)	(27,840)	27,318	(43,986)

Applicable taxes in Georgia and Belarus include corporate income tax (profit tax), individuals' withholding taxes, property tax and value added tax, among others. However, regulations are often unclear or non-existent and few precedents have been established. This creates tax risks in Georgia and Belarus, 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 interpretative issues.

(Thousands of Georgian Lari)

15. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2017, 31 December 2016 and 31 December 2015 and their movements for the respective years are as follows:

		Origination and reversal of temporary differences					Origination and reversal of temporary differences			Origination and reversal of temporary differences			
	2014	*In the income statement*	*Business combi- nation*	*Reorga- nization*	*In other compre- hensive income*	*2015*	*In the income statement*	*In other compre- hensive income*	*2016*	*In the income statement*	*IFRS 15 adoption*	*In other compre- hensive income*	*2017*
Tax effect of deductible temporary differences:													
Amounts due to credit institutions and other borrowings	1,005	(512)	-	(11)	-	482	(482)	-	-	-	-	-	-
Investment securities: available-for-sale	1,195	(1,194)	-	(1)	-	-	-	-	-	-	-	-	-
Investment properties	980	-	-	(980)	-	-	431	59	490	(284)	-	(18)	188
Insurance premiums receivables	1,510	-	-	(1,510)	-	-	-	-	-	-	-	-	-
Allowances for impairment and provisions for other losses	198	4,866	-	(198)	-	4,866	1,602	23	6,491	1,292	-	(7)	7,776
Tax losses carried forward	12,296	3,493	(1,992)	(3,474)	1,800	12,123	(3,886)	(8,237)	-	-	-	-	-
Property and equipment	936	-	-	(936)	-	-	188	632	820	81	-	(179)	722
Other assets and liabilities	3,869	(2,129)	-	(694)	(468)	578	923	695	2,196	1,824	-	(214)	3,806
Deferred tax assets	21,989	4,524	(1,992)	(7,804)	1,332	18,049	(1,224)	(6,828)	9,997	2,913	-	(418)	12,492
Tax effect of taxable temporary differences:													
Amounts due to credit institutions and other borrowings	44	(19)	-	(23)	(2)	-	1,230	-	1,230	(470)	-	-	760
Amounts due to customers	1,325	(1,325)	-	-	-	-	-	-	-	-	-	-	-
Loans to customers	30,236	(763)	-	-	(517)	28,956	(11,210)	720	18,466	(4,423)	-	(262)	13,781
Other insurance liabilities & pension fund obligations	1,382	-	-	(1,382)	-	-	-	-	-	-	-	-	-
Property and equipment	35,278	10,498	2,421	(14,414)	413	34,196	(26,681)	(1,098)	6,417	(2,668)	-	1,203	4,952
Investment properties	64	6,500	-	-	(53)	6,511	(4,966)	(1,545)	-	-	-	-	-
Intangible assets	6,532	(742)	-	(2,020)	(7)	3,763	(3,846)	102	19	(2)	-	(1)	16
Other assets and liabilities	8,664	(588)	-	(967)	(53)	7,056	(1,228)	12	5,840	292	(1,911)	(26)	4,195
Deferred tax liabilities	83,525	13,561	2,421	(18,806)	(219)	80,482	(46,701)	(1,809)	31,972	(7,271)	(1,911)	914	23,704
Net deferred tax liabilities	(61,536)	(9,037)	(4,413)	11,002	1,551	(62,433)	45,477	(5,019)	(21,975)	10,184	1,911	(1,332)	(11,212)

16. Other Assets and Other Liabilities

Other assets comprise:

	2017	*2016*	*2015*
Foreclosed assets	52,095	50,821	49,602
Inventory	16,328	5,798	5,290
Derivative financial assets	13,484	2,610	42,212
Receivables from money transfers	12,890	8,915	4,619
Assets purchased for finance lease purposes	10,477	-	-
Receivables from documentary operations	7,790	1,827	1,676
Operating tax assets	4,377	3,856	1,737
Operating lease receivables	1,843	1,774	1,139
Accounts receivable	1,803	902	2,018
Settlements on operations	929	1,101	5,080
Receivables from sale of assets	825	482	4,452
Trading securities owned	-	-	1,106
Other	16,349	22,459	21,997
	139,190	100,545	140,928
Less – Allowance for impairment of other assets	(21,333)	(12,265)	(10,002)
Other assets	117,857	88,280	130,926

(Thousands of Georgian Lari)

16. Other Assets and Other Liabilities (continued)

Other liabilities comprise:

	2017	*2016*	*2015*
Deferred income and other accruals	19,176	455	293
Creditors	18,974	6,664	7,387
Accruals for employee compensation	18,482	18,004	14,070
Other taxes payable	7,346	3,657	1,263
Derivative financial liabilities	3,948	15,689	3,243
Dividends payable	1,064	1,276	779
Accounts payable	98	12	198
Amounts payable for share acquisitions	-	-	9,248
Other	11,069	9,346	6,839
Other liabilities	80,157	55,103	43,320

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2017		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	370,523	3,039	1,958
Forwards and Swaps – foreign	227,585	1,576	534
Interest rate contracts			
Forwards and Swaps – foreign	777,660	7,368	-
Options – foreign	10,183	1,501	1,456
Total derivative assets / liabilities	1,385,951	13,484	3,948

	2016			*2015*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and Swaps – domestic	347,458	2,098	8,012	12,510	183	10
Forwards and Swaps – foreign	302,679	512	7,043	145,055	41,994	510
Options – foreign	-	-	-	56,768	35	2,723
Interest rate contracts						
Forwards and Swaps – foreign	794,040	-	634	-	-	-
Total derivative assets / liabilities	1,444,177	2,610	15,689	214,333	42,212	3,243

(Thousands of Georgian Lari)

17. Amounts Due to Customers

The amounts due to customers include the following:

	2017	*2016*	*2015*
Time deposits	3,352,379	2,844,948	2,619,461
Current accounts	3,697,021	2,854,336	2,405,348
Promissory notes issued	74,466	74,228	868
Amounts due to customers	7,123,866	5,773,512	5,025,677
Held as security against letters of credit and guarantees (Note20)	98,399	96,692	64,534

As at 31 December 2017, 31 December 2016 and 31 December 2015, promissory notes issued by the Group comprise the notes privately held by financial institutions being effectively equivalents of certificates of deposits with fixed maturity and fixed interest rate. The average effective maturity of the notes was 23 month (2016: 16 months, 2015: 9 months).

At 31 December 2017, amounts due to customers of GEL 1,066,616 (15%) were due to the 10 largest customers (2016: GEL 635,303 (11%), 2015: GEL 834,215 (17%).

Amounts due to customers include accounts with the following types of customers:

	2017	*2016*	*2015*
Individuals	3,866,404	3,123,534	2,611,447
Private enterprises	2,793,175	2,512,506	2,223,850
State and state-owned entities	464,287	137,472	190,380
Amounts due to customers	7,123,866	5,773,512	5,025,677

The breakdown of customer accounts by industry sector is as follows:

	2017	*2016*	*2015*
Individuals	3,866,404	3,123,534	2,611,447
Financial intermediation	659,464	522,046	410,323
Trade	593,752	435,836	375,890
Government services	438,492	102,530	141,007
Service	306,061	381,837	328,821
Construction	279,623	291,440	243,554
Transport & Communication	257,818	213,301	317,161
Manufacturing	225,336	208,519	237,899
Electricity, gas and water supply	109,780	113,572	74,125
Real estate	105,030	127,163	73,042
Health and social work	70,535	46,106	107,643
Hospitality	44,241	22,248	18,818
Other	167,330	185,380	85,947
Amounts due to customers	7,123,866	5,773,512	5,025,677

(Thousands of Georgian Lari)

18. Amounts Owed to Credit Institutions and Other Borrowings

Amounts due to credit institutions comprise:

	2017	2016	2015
Borrowings from international credit institutions	1,087,897	1,072,033	604,862
Short-term loans from the National Bank of Georgia	793,528	1,085,000	307,200
Time deposits and inter-bank loans	261,173	150,582	277,818
Correspondent accounts	204,512	329,609	92,617
Other borrowings*	386,426	394,224	-
Subtotal	2,733,536	3,031,448	1,282,497
Non-convertible subordinated debt	428,673	436,905	395,090
Amounts due to credit institutions and other borrowings	3,162,209	3,468,353	1,677,587

* Other borrowings comprise of USD-denominated borrowing from JSC BGEO maturing in 2023.

During the year ended 31 December 2017, the Group paid up to 6.27% on USD borrowings from international credit institutions (2016: up to 5.79%, 2015: up to 5.29%). During the year ended 31 December 2017 the Group paid up to 8.92% on USD subordinated debt (2016: up to 8.44% and 2015: up to 7.95%).

Some long-term borrowings from international credit institutions are received upon certain conditions (the "Lender Covenants") that the Group maintains different limits for capital adequacy, liquidity, currency positions, credit exposures, leverage and others. At 31 December 2017, 31 December 2016 and 31 December 2015 the Group complied with all the Lender Covenants of the significant borrowings from international credit institutions.

Changes in liabilities arising from financing activities

	Amounts due to credit institutions
Carrying amount at 31 December 2016	21,692
Foreign currency translation	9
Cash repayments	(21,701)
Carrying amount at 31 December 2017	-

19. Debt Securities Issued

Debt securities issued comprise:

	2017	2016	2015
Eurobonds and notes issued	454,953	-	908,183
Certificates of deposit	268,552	177,271	32,762
Georgian local bonds	26,150	-	-
Debt securities issued	749,655	177,271	940,945

On 24 May 2017, the Group completed the issuance of GEL 500 million Lari denominated 11.00% notes due 2020. The Regulation S/Rule 144A senior unsecured notes were issued and sold at an issue price of 100% of their principal amount. The notes are rated BB- (Fitch) and Ba3 (Moody's). The notes are listed on the Irish Stock Exchange.

(Thousands of Georgian Lari)

20. 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.

Financial commitments and contingencies

As at 31 December 2017, 31 December 2016 and 31 December 2015 the Group's financial commitments and contingencies comprised the following:

	2017	*2016*	*2015*
Credit-related commitments			
Guarantees issued	630,413	456,996	494,180
Undrawn loan facilities	261,397	231,704	273,851
Letters of credit	43,423	58,561	43,126
	935,233	747,261	811,157
Operating lease commitments			
Not later than 1 year	20,115	19,200	13,608
Later than 1 year but not later than 5 years	47,558	45,405	28,579
Later than 5 years	18,486	18,713	5,526
	86,159	83,318	47,713
Capital expenditure commitments	2,538	2,394	2,424
Less – Cash held as security against letters of credit and guarantees (Note 17)	(98,399)	(96,692)	(64,534)
Less – Provisions	(2,815)	(3,380)	(2,254)
Financial commitments and contingencies, net	922,716	732,901	794,506

21. Equity

Share capital

As at 31 December 2017, 2016 and 2015 authorized common capital comprised 43,308,125, issued share capital comprised 27,821,150 common shares, of which 27,821,150 were fully paid. Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2017 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2014	36,512,553	36,513
Reorganization *	(8,691,403)	(8,692)
31 December 2015	27,821,150	27,821
31 December 2016	27,821,150	27,821
31 December 2017	27,821,150	27,821

** Number of ordinary shares of the Bank was reduced by the new holding companies in course of Reorganization in exchange for transfer of subsidiaries presented as discontinued operations.*

(Thousands of Georgian Lari)

21. Equity (continued)

Treasury shares

The number of treasury shares held by the Group as at 31 December 2017 comprised 8,995 (31 December 2016: 8,995, 31 December 2015: 2,543).

Nominal amount of treasury shares of GEL 9 as at 31 December 2017 comprise the Group's shares owned by the Group (31 December 2016: GEL 9, 31 December 2015: GEL 3).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 29 November 2016, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2015 of Georgian Lari 3.59 per share. Payment of the total GEL 100,000 dividends was received by shareholders on 29 December 2016.

On 12 February 2016, the annual general meeting of shareholders' of JSC Bank of Georgia declared a final dividend for 2014 of Georgian Lari 3.48 per share. Payment of the total GEL 100,597 dividends was received by shareholders on 15 March 2016.

On 20 July 2015, the annual general meeting of shareholders' of JSC Bank of Georgia declared a final dividend for 2013 of Georgian Lari 1.78 per share,. Payment of the total GEL 64,988 dividends was received by shareholders on 18 August 2015.

Nature and purpose of Other Reserves

Unrealised gains (losses) on investment securities
This reserve records fair value changes on investment securities.

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

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Movements in other reserves during the years ended 31 December 2017, 31 December 2016 and 31 December 2015 are presented in the statements of other comprehensive income.

(Thousands of Georgian Lari)

21. Equity (continued)

Earnings per share

Basic and diluted earnings per share	*2017*	*2016*	*2015*
Profit for the year attributable to ordinary shareholders of the Group	338,761	287,945	257,628
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	338,761	287,945	249,997
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	-	-	7,631
Weighted average number of ordinary shares outstanding during the year	27,812,155	27,817,934	32,226,222
Earnings per share	12.1803	10.3511	7.9944
Earnings per share from continuing operations	12.1803	10.3511	7.7576
Earnings per share from discontinued operations *	-	-	0.2368

Following the Reorganization, the number of ordinary shares of the Bank was reduced by 8,691,403 – the number of ordinary shares issued by the new holding companies for the discontinued operations. The below table shows earnings per share based on weighted average number of ordinary shares outstanding, had the number of ordinary shares issued been 8,691,403 less from 1 January 2014.

Basic and diluted earnings per share	*2017*	*2016*	*2015*
Profit for the year attributable to ordinary shareholders of the Group	338,761	287,945	257,628
Profit for the year from continuing operations attributable to ordinary shareholders of the Group	338,761	287,945	249,997
Profit for the year from discontinued operations attributable to ordinary shareholders of the Group	-	-	7,631
Weighted average number of ordinary shares outstanding during the year	27,812,155	27,817,934	27,178,064
Earnings per share	12.1803	10.3511	9.4793
Earnings per share from continuing operations	12.1803	10.3511	9.1985
Earnings per share from discontinued operations *	-	-	0.2808

** Reduction in 2015 due to discontinued operations being part of the Group for only the first seven months, until August 2015, when they got moved under the Bank's sister companies.*

(Thousands of Georgian Lari)

22. Net Fee and Commission Income

	2017	2016	2015
Settlements operations	151,630	127,633	110,590
Guarantees and letters of credit	17,879	19,517	27,360
Cash operations	15,735	14,682	14,137
Currency conversion operations	447	585	1,549
Other	5,309	5,969	3,893
Fee and commission income	191,000	168,386	157,529
Settlements operations	(63,813)	(47,743)	(42,496)
Cash operations	(5,157)	(5,954)	(4,913)
Guarantees and letters of credit	(2,177)	(2,865)	(3,803)
Insurance brokerage service fees	(211)	(227)	(81)
Currency conversion operations	(27)	(20)	(59)
Other	(3,345)	(1,687)	(1,083)
Fee and commission expense	(74,730)	(58,496)	(52,435)
Net fee and commission income	116,270	109,890	105,094

Revenue from customers

The group has recognised GEL 193,160 relating to revenue from contracts with customers in the income statement.

Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	31 December 2017	1 January 2017
Accruals and deferred income	17,730	12,798

The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The Group recognised GEL 5,531 revenue in the current reporting period that relates to carried-forward contract liabilities and is included in the deferred income.

Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied at the reporting date:

	In the year ending 31 December 2018	In the year ending 31 December 2019	In the year ending 31 December 2020	In 3 to 5 years	In 5 to 10 years	Total
Revenue expected to be recognized on active contracts	16,773	7,559	3,223	3,618	495	31,668

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of 1 year or less.

(Thousands of Georgian Lari)

23. Net Real Estate Revenue

	2017	2016	2015
Income from operating lease	3,361	6,045	5,614
Gain from sale of real estate properties	4,630	2,929	6,553
Real estate revenue	7,991	8,974	12,167
Loss on real estate property sale	(2,312)	(343)	(336)
Net real estate revenue	5,679	8,631	11,831

24. Salaries and Other Employee Benefits, and General and Administrative Expenses

	2017	2016	2015
Salaries and bonuses	(183,016)	(150,710)	(136,187)
Social security costs	(3,869)	(3,050)	(2,954)
Salaries and other employee benefits	(186,885)	(153,760)	(139,141)

Salaries and bonuses include GEL 50,393, GEL 39,696 and GEL 31,025 of the Equity Compensation Plan costs for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 30).

	2017	2016	2015
Occupancy and rent	(24,195)	(19,458)	(16,308)
Marketing and advertising	(14,575)	(12,652)	(7,193)
Repairs and maintenance	(12,637)	(10,051)	(9,248)
Legal and other professional services	(7,977)	(6,508)	(7,211)
Operating taxes	(6,824)	(5,688)	(4,540)
Office supplies	(5,596)	(4,355)	(4,197)
Corporate hospitality and entertainment	(5,239)	(4,873)	(3,578)
Communication	(5,140)	(4,323)	(4,907)
Personnel training and recruitment	(3,386)	(1,619)	(1,537)
Insurance	(2,757)	(1,904)	(1,756)
Security	(2,211)	(1,540)	(1,688)
Travel expenses	(1,641)	(1,029)	(1,407)
Penalties	(49)	(17)	(67)
Banking services	(6)	(1)	(2)
Other	(2,774)	(1,516)	(3,600)
General and administrative expenses	(95,007)	(75,534)	(67,239)

Auditors' remuneration

Remuneration of Group's auditor for the years ended 31 December 2017 and 31 December 2016 comprises (net of VAT):

	2017	2016
Fees for the audit of the Group's annual financial statements for the year ended 31 December	428	423
Expenditures for other assurance services	812	242
Expenditures for other professional services	-	115
Total fees and expenditures	1,240	780

Fees and expenditures payable to other auditors and audit firms in respect of the audit of the parent and Group's subsidiaries were GEL 67 (2016: GEL 92) and in respect of other professional services GEL 207 (2016: GEL 146), net of VAT.

(Thousands of Georgian Lari)

25. Net Non-recurring Items

	2017	2016	2015
Gain from the sale of Class C and Class B shares of Visa Inc. and MasterCard, respectively	-	16,426	-
Gain on reclassification of AFS investment to investment in associate	-	9,626	-
Reversal of impairment on property and equipment	-	-	1,524
Gain from penalties on unfulfilled obligations by contractors	-	-	-
Other non-recurring income/gain	-	516	508
Total non-recurring income/gain	-	26,568	2,032
Termination benefits / sign-up compensation expenses	(868)	(12,643)	(1,167)
Loss from full redemption of debt securities issued	-	(43,919)	-
Loss from early repayments of borrowings	-	(6,979)	(4,033)
Consulting costs	-	(5,258)	-
Impairment of prepayments	-	(2,205)	(2,205)
Impairment of property and equipment, and intangible assets	-	(1,403)	-
JSC PrivatBank integration costs	-	-	(3,731)
Impairment of finance lease receivables	-	-	(735)
Other	(2,721)	(3,330)	(820)
Total non-recurring expense/loss	(3,589)	(75,737)	(12,691)
Net non-recurring items	(3,589)	(49,169)	(10,659)

26. Share-based Payments

Executives' Equity Compensation Plan

Sanne Fiduciary Services Limited (the "Trustee") acts as the trustee of the Group's Executives' Equity Compensation Plan ("EECP"). The Group makes contributions to the Trustee in respect of the awards granted within EECP. JSC BGEO Group has the legal obligation to settle the awards. In granting the awards, the Bank acts as the agent of the parent and the ultimate parent

In 2017, the Group contributed GEL 125,270 (2016: GEL 119,471, 2015: GEL 9,450) as intra-group recharge under share-based compensation schemes described above

In February 2017, BGEO PLC's remuneration committee resolved to award 253,950 ordinary shares of BGEO to the members of the Management Board and Supervisory Board and 70,550 ordinary shares of BGEO to the Group's 19 executives. Shares awarded to the Management Board, Supervisory Board and the other 19 executives are subject to two-year vesting for Management Board and Supervisory Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Group considers 28 February 2017 as the grant date. The Group estimates that the fair value of the shares awarded on 28 February 2017 was Georgian Lari 90.01 per share.

In February 2016, BGEO PLC's remuneration committee resolved to award 288,500 ordinary shares of BGEO to the members of the Management Board and Supervisory Board and 52,600 ordinary shares of BGEO to the Group's 19 executives. Shares awarded to the Management Board, Supervisory Board and the other 19 executives are subject to two-year vesting for Management Board and Supervisory Board and three-year vesting for executives, with continuous employment being the only vesting condition for both awards. The Group considers 12 February 2016 as the grant date. The Group estimates that the fair value of the shares awarded on 12 February 2016 was Georgian Lari 57.83 per share.

In March 2015, BGEO PLC's remuneration committee resolved to award 153,500 ordinary shares of BGEO to the members of the Management Board and 107,215 ordinary shares of BGEO to the Group's 24 executives. Shares awarded to the Management Board and the other executives are subject to two-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 19 March 2015 as the grant date. The Group estimates that the fair value of the shares awarded on 19 March 2015 was Georgian Lari 57.41 per share.

(Thousands of Georgian Lari)

26. Share-based Payments (continued)

Executives' Equity Compensation Plan(Continued)

At the end of 2016 and during 2017, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 141,000 ordinary shares of BGEO PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2018, of which each award will be subject to a four-year vesting period. The Group considers 11 October 2016, 18 October 2016 and 1 March 2017 as the grant date for the awards. The Group estimates that the fair value of the shares on 11 October 2016, 18 October 2016 and 1 March 2017 were Georgian Lari 86.4, 87.6 and 92.2, respectively.

At the end of 2015 and during 2016, the new Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 225,000 ordinary shares of BGEO PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 30 December 2015 and 6 September 2016 as the grant date for the awards. The Group estimates that the fair value of the shares on 30 December 2015 and 6 September 2016 were Georgian Lari 68.30 and 90.22, respectively.

In August 2015, the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 904,000 ordinary shares of BGEO. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2017, of which each award will be subject to a four-year vesting period. The Group considers 24 August 2015 as the grant date for the awards. The Group estimates that the fair value of the shares on 24 August 2015 was Georgian Lari 59.17.

The Bank grants share compensation to its non-executive employees too. In February 2017, February 2016 and March 2015, the Supervisory Board of the Bank resolved to award 131,710, 91,851 and 111,298 ordinary shares to its non-executive employees, respectively. All these awards are subject to three-year vesting, with a continuous employment being the only vesting condition for all awards. The Group considers 28 February 2017, 12 February 2016 and 19 March 2015 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 28 February 2017, 12 February 2016 and 19 March 2015 were Georgian Lari 90.01, 57.83 and 57.41 per share, respectively.

Summary

Fair value of the shares granted at the measurement date is determined based on available market quotations.

The weighted average fair value of share-based awards at the grant date comprised Georgian Lari 89.79 per share in year ended 31 December 2017 (31 December 2016: Georgian Lari 66.60 per share, 31 December 2015: Georgian Lari 58.68).

The Group's total share-based payment expenses for the year ended 31 December 2017 comprised GEL 50,393 (31 December 2016: GEL 39,696, 31 December 2015: GEL 31,025) and are included in "salaries and other employee benefits", as "salaries and bonuses".

Below is the summary of the share-based payments related data:

	2017	*2016*	*2015*
Total number of equity instruments awarded*	597,210	657,951	1,336,013
– *Among them, to top management and board of directors*	*394,950*	*513,500*	*1,076,000*
Weighted average value at grant date, per share (GEL in full amount)	89.79	66.60	58.68
Value at grant date, total (GEL)	53,626	43,821	78,395
Total expense recognised during the year (GEL)	(50,393)	(39,696)	(31,025)

** 2015 award includes fixed contingent share-based compensation of 964,000 ordinary shares per new employment agreements signed 24 August 2015 for subsequent consecutive 3 year period, including 904,000 of the Management Board members.*

(Thousands of Georgian Lari)

27. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of on-going 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 credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. 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

Audit Committee
The Audit Committee is an independent body and is directly monitored by the Board. It has the overall responsibility for developing and implementation of overall risk assessment and risk mitigation strategies, principles, frameworks, policies and limits. The Audit Committee is responsible for the fundamental risk issues and manages and monitors relevant risk decisions covering, but not limited to: macroeconomic and environmental risks, general control environment, manual and application controls, risks of intentionally or unintentional misstatements, risk of fraud or misappropriation of assets, information security, anti-money laundering, information technology risks, etc.

Risk Committee

The Risk Committee is responsible for ensuring that the Group's risk appetite and exposure are addressed as part of strategy and appropriateness of risk strategy and appetite; oversee and advise the Board on the current and emerging risk exposures of the Group; oversee and monitor the implementation of the risk strategy by senior management to address the risk exposures of the Group; review the effectiveness of the Group's risk management framework and internal control systems (other than internal financial control systems which is the responsibility of the BGEO Audit Committee); assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group; ensure that risk is properly considered in setting the Group's remuneration policy; oversee the communication regarding risk management through the entire management structure; review and approve the Group's risk management policy.

Management Board
The Management Board has the responsibility to monitor and manage the entire risk process within the Group, 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 the implementation and performance of relevant departments and committees.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO") is the core risk management body. It is responsible for managing the Bank's assets and liabilities, all risks associated with them as well as overall financial structure of the Group. It is also primarily responsible for the funding, capital adequacy risk, liquidity risks and market risks of the Bank.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines 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 Audit Committee.

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 Base Case (forecast under normal business conditions) and the other two are Troubled and Distressed Scenarios, which are worse and the worst case scenarios, respectively, that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Introduction (continued)

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate credit exposures and their limits, exceptions to those 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 allowance for credit losses on a monthly basis. The Management Board receives a comprehensive Credit Risk report and ALCO report once a month. These reports are designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, relevant and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. While these are intended for hedging, these do not qualify for hedge accounting.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or these counterparties represent related parties to each other, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations also involve combined, aggregate exposures of large and significant credits compared to the total outstanding balance of the respective financial instrument. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio of both, financial assets as well as financial liabilities. Identified concentrations of credit risks or liquidity / repayment risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail 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 geographical, industry, product and currency concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision.

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. The maximum credit exposure is limited to carrying value of respective instruments.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of the financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality per class of financial assets

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

31 December 2017	Notes	*Neither past due nor impaired* High grade	Standard grade	Sub-standard grade	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	1,216,343	-	-	-	1,216,343
Debt investment securities available-for-sale	9	1,613,558	-	-	-	1,613,558
Loans to customers:	10					
Commercial loans		1,820,670	275,044	6,193	310,606	2,412,513
Consumer loans		1,580,503	37,612	31,915	101,076	1,751,106
Micro and SME loans		1,547,233	105,302	30,019	93,490	1,776,044
Residential mortgage loans		1,619,638	28,961	19,783	44,133	1,712,515
Gold – pawn loans		65,865	-	-	2,075	67,940
		6,633,909	446,919	87,910	551,380	7,720,118
Finance lease receivables	11	48,069	12,161	2,063	5,393	67,686
Total		9,511,879	459,080	89,973	556,773	10,617,705

31 December 2016	Notes	*Neither past due nor impaired* High grade	Standard grade	Sub-standard grade	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	8	940,485	-	-	-	940,485
Debt investment securities available-for-sale	9	1,283,607	-	-	-	1,283,607
Loans to customers:	10					
Commercial loans		1,693,220	286,282	17,814	475,700	2,473,016
Consumer loans		1,243,553	21,520	23,740	78,415	1,367,228
Micro and SME loans		1,225,610	113,565	37,761	117,001	1,493,937
Residential mortgage loans		1,134,266	49,285	15,052	35,573	1,234,176
Gold – pawn loans		56,977	-	-	3,708	60,685
		5,353,626	470,652	94,367	710,397	6,629,042
Finance lease receivables	11	1,426	7,525	2,337	3,307	14,595
Total		7,579,144	478,177	96,704	713,704	8,867,729

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

31 December 2015	Notes	*Neither past due nor impaired* High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from credit institutions	8	718,677	-	-	-	718,677
Debt investment securities available-for-sale	9	901,945	-	-	-	901,945
Loans to customers:	10					
Commercial loans		1,830,923	196,607	57,085	354,661	2,439,276
Consumer loans		1,047,775	22,810	22,642	71,880	1,165,107
Micro and SME loans		892,014	80,064	27,828	42,023	1,041,929
Residential mortgage loans		750,455	22,033	11,223	30,633	814,344
Gold – pawn loans		61,140	-	-	-	61,140
		4,582,307	321,514	118,778	499,197	5,521,796
Finance lease receivables	11	4,283	8,375	855	2,048	15,561
Total		6,207,212	329,889	119,633	501,245	7,157,979

Past due loans to customers, analysed by age below, include those that are past due by at least one day and are not impaired.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Attributable risk ratings are assessed and updated regularly.

The credit risk assessment policy for non-past due and individually non-impaired financial assets has been determined by the Group as follows:

- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due no more than 30 days is assessed as a financial asset with High Grade;
- A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 30 but less than 60 days is assessed as a financial asset with Standard Grade; A financial asset that is neither past due nor impaired at the reporting date, but historically used to be past due more than 60 days or borrower of this loan has at least an additional borrowing in past due more than 60 days as at reporting date is assessed as a financial asset with Sub-Standard Grade.

Aging analysis of past due but not impaired loans per class of financial assets

31 December 2017	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	42,625	15,044	12,321	28,907	98,897
Micro and SME loans	7,486	8,822	4,777	19,288	40,373
Residential mortgage loans	14,446	4,969	2,144	7,903	29,462
Commercial loans	1,487	452	208	227	2,374
Finance lease receivables	2,499	227	-	74	2,800
Total	68,543	29,514	19,450	56,399	173,906

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

31 December 2016	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	34,353	10,940	9,349	20,995	75,637
Micro and SME loans	20,035	9,494	6,479	29,874	65,882
Residential mortgage loans	10,074	4,472	1,840	7,319	23,705
Commercial loans	10,235	4,558	387	1,621	16,801
Finance lease receivables	832	-	-	-	832
Total	75,529	29,464	18,055	59,809	182,857

31 December 2015	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Loans to customers:					
Consumer loans	29,592	8,498	6,930	23,724	68,744
Micro and SME loans	5,196	4,148	1,000	4,259	14,603
Residential mortgage loans	7,594	1,207	908	5,023	14,732
Commercial loans	21,727	1,227	25	1,596	24,575
Finance lease receivables	238	-	2	-	240
Total	64,347	15,080	8,865	34,602	122,894

See Notes 10 and 11 for more detailed information with respect to the allowance for impairment of loans to customers and finance lease receivables.

The Group specifically monitors performance of the loans with overdue payments in arrears for more than 90 days. The gross carrying value (i.e. carrying value before deducting any allowance for impairment) of such loans comprised GEL 278,284, GEL 293,054 and GEL 166,224 as at 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2017	2016	2015
Loans to customers:			
Commercial loans	103,365	235,026	141,294
Micro and SME loans	47,539	37,003	20,890
Residential mortgage loans	44,058	38,757	28,594
Consumer loans	39,318	29,828	18,243
Finance lease receivables	5,508	836	-
Total	239,788	341,450	209,021

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by any number of days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. Loans are considered to be individually impaired if they are past due by certain number of days as prescribed per the Group methodology, or history of the debt service is deteriorated by certain percentage, as defined per the Group methodology, or any other defined event of default is identified. Impairment for all such loans is assessed individually, rather than through a collective impairment assessment model of the Group.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Credit risk (continued)

Individually assessed allowances

For loan loss allowance determination purposes the Group considers all individually significant loans and classifies them between being individually impaired or not impaired. The allowance for those individually significant loans that are determined to be individually impaired is determined through individual assessment of the associated credit risk by assigning a proper credit rating. The allowances for non-significant loans that are determined to be individually impaired are also individually assessed. The allowance for losses for individually significant loans that are determined not to be individually impaired is assessed through the collective assessment approach described below. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend pay-out should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, the timing of the expected cash flows and past history of the debt service of the borrower. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for all loans (including but not limited to credit cards, residential mortgages, and unsecured consumer lending, commercial lending, etc.), both, significant as well as non-significant, where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year, depending on the product. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

The geographical concentration of the Group's assets and liabilities is set out below:

	2017			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	475,133	929,676	96,845	1,501,654
Amounts due from credit institutions	1,023,145	182,699	10,499	1,216,343
Investment securities available-for-sale	980,876	559,468	73,415	1,613,759
Loans to customers	7,059,260	-	386,318	7,445,578
Finance lease receivables	52,109	-	13,197	65,306
All other assets	702,272	4,271	71,533	778,076
	10,292,795	1,676,114	651,807	12,620,716
Liabilities:				
Amounts due to customers	5,356,374	663,234	1,104,258	7,123,866
Amounts due to credit institutions and other borrowings	1,455,058	1,631,331	75,820	3,162,209
Debt securities issued	26,149	694,994	28,512	749,655
All other liabilities	98,511	571	3,985	103,067
	6,936,092	2,990,130	1,212,575	11,138,797
Net balance sheet position	3,356,703	(1,314,016)	(560,768)	1,481,919

27. Risk Management (continued)

Credit risk (continued)

	2016				2015			
	Georgia	*OECD*	*CIS and other foreign countries*	*Total*	*Georgia*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	608,415	812,798	65,957	1,487,170	568,759	661,543	146,480	1,376,782
Amounts due from credit institutions	933,638	3,287	3,560	940,485	619,671	95,100	3,906	718,677
Investment securities available-for-sale	912,345	286,832	84,725	1,283,902	823,193	79,047	-	902,240
Loans to customers	6,030,838	-	349,127	6,379,965	5,005,171	9,340	308,376	5,322,887
Finance lease receivables	123	-	12,973	13,096	2,273	-	11,737	14,010
All other assets	595,611	4,950	27,753	628,314	600,497	4,630	29,188	634,315
	9,080,970	1,107,867	544,095	10,732,932	7,619,564	849,660	499,687	8,968,911
Liabilities:								
Amounts due to customers	4,270,165	557,909	945,438	5,773,512	3,628,734	592,673	804,270	5,025,677
Amounts due to credit institutions and other borrowings	1,774,115	1,583,393	110,845	3,468,353	424,705	1,035,802	217,080	1,677,587
Debt securities issued	-	153,145	24,126	177,271	-	940,945	-	940,945
All other liabilities	68,359	7,091	5,202	80,652	124,876	185	4,710	129,771
	6,112,639	2,301,538	1,085,611	9,499,788	4,178,315	2,569,605	1,026,060	7,773,980
Net balance sheet position	2,968,331	(1,193,671)	(541,516)	1,233,144	3,441,249	(1,719,945)	(526,373)	1,194,931

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 and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, 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 grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBG, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone Bank basis, based on certain liquidity ratios established by the NBG. Minimum NBG requirement for liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by liabilities for the same month (with certain exceptions established by the NBG). As at 31 December 2017, 31 December 2016 and 31 December 2015 these ratios were as follows:

	2017, %	*2016, %*	*2015, %*
Average liquidity ratio	39.8%	43.6%	38.1%
Maximum liquidity ratio	47.0%	62.5%	48.0%
Minimum liquidity ratio	31.3%	34.1%	28.9%

The average liquidity ratio is calculated on a standalone basis for JSC Bank of Georgia as the annual average (arithmetic mean) of daily liquidity ratios, computed as the ratio of liquid assets to liabilities determined by the National Bank of Georgia as follows:

Liquid assets comprise cash, cash equivalents and other assets that are immediately convertible into cash. Those assets include investment securities issued by the Georgian Government plus Certificates of Deposit issued by NBG and do not include amounts due from credit institutions, other than inter-bank deposits, and/or debt securities of Governments and Central Banks of non-OECD countries, amounts in nostro accounts which are under lien, impaired inter-bank deposits and amounts on obligatory reserve with NBG that are pledged due to borrowings from NBG.

Liabilities comprise the total balance sheet liabilities, less amounts due to credit institutions that are to be exercised or settled later than six months from the reporting date, plus off-balance sheet commitments with residual maturity subsequent to the reporting date of less than six months. Off-balance sheet commitments include all commitments except financial guarantees and letters of credit that are fully collateralized by customer deposits placed in the Bank, and commitments due to dealing operations with foreign currencies. The maximum and minimum liquidity ratios are taken from historical data of the appropriate reporting years.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Liquidity risk and funding management (continued)

In addition, on 15 May 2017 NBG issued an Order on Liquidity Coverage Ratio for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, banks are required to maintain a liquidity coverage ratio, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. The liquidity coverage ratio as at 31 December 2017 was 112.4%

The Group also matches the maturity of financial assets and financial liabilities and imposes a maximum limit on negative gaps compared to the Bank's standalone total regulatory capital calculated per NBG regulation. The ratios are assessed and monitored monthly and compared against set limits. In the case of deviations, amendment strategies / actions are discussed and approved by ALCO.

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. However, the Group expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	2,952,578	3,624,515	626,061	65,597	7,268,751
Amounts due to credit institutions and other borrowings	1,321,995	538,270	962,370	917,642	3,740,277
Debt securities issued	15,036	140,508	749,631	-	905,175
Derivative financial liabilities	3,139	809	-	-	3,948
Total undiscounted financial liabilities	4,292,748	4,304,102	2,338,062	983,239	11,918,151

Financial liabilities As at 31 December 2016	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	2,231,133	3,119,928	504,757	49,205	5,905,023
Amounts due to credit institutions and other borrowings	1,670,504	530,156	1,116,111	755,118	4,071,889
Debt securities issued	31,520	20,905	139,825	-	192,250
Derivative financial liabilities	8,466	6,589	634	-	15,689
Total undiscounted financial liabilities	3,941,623	3,677,578	1,761,327	804,323	10,184,851

Financial liabilities As at 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	3,227,581	1,271,937	616,040	60,094	5,175,652
Amounts due to credit institutions and other borrowings	304,373	351,390	544,589	515,649	1,716,001
Debt securities issued	48,477	18,552	971,731	-	1,038,760
Other liabilities	3,052	-	-	-	3,052
Total undiscounted financial liabilities	3,583,483	1,641,879	2,132,360	575,743	7,933,465

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
31 December 2017	398,504	192,724	329,458	103,244	1,023,930
31 December 2016	343,628	218,438	228,957	41,950	832,973
31 December 2015	409,444	298,527	136,058	17,265	861,294

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Georgian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 17).

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading and non-trading positions are managed and monitored using sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2017. Changes in basis points are calculated as standard deviations of daily changes in floating rates over the last month multiplied by respective floating rates. During the year ended 31 December 2017, year ended 31 December 2016 and year ended 31 December 2015, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of other comprehensive income 2017*
GEL	13	443	(1,159)
EUR	1	(22)	-
USD	3	(73)	-

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of other comprehensive income 2017*
GEL	13	(443)	1,159
EUR	1	22	-
USD	3	73	-

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	206	261	(1,758)
EUR	1	1	-
USD	3	69	-

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of other comprehensive income 2016*
GEL	206	(261)	1,758
EUR	1	(1)	-
USD	3	(69)	-

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	63	1,887	(5,080)
EUR	20	81	-
USD	5	187	-

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of other comprehensive income 2015*
GEL	63	(1,887)	5,080
EUR	20	(81)	-
USD	5	(187)	-

(Thousands of Georgian Lari)

27. Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBG regulations. Positions are monitored daily.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables being constant. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. During the year ended the year ended 31 December 2017, year ended 31 December 2016 and year ended 31 December 2015, sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*	*Change in currency rate in %*	*Effect on profit before tax*
	2017		*2016*		*2015*	
EUR	12.0%	(2,487)	11.6%	(3,336)	2.9%	1
USD	8.9%	5,758	9.3%	3,507	1.1%	(1,329)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall, or other credit facilities, for similar reasons.

The Group calculates the effect of early repayments by calculating the weighted average rates of early repayments across each loan product individually, applying these historical rates to the outstanding carrying amount of respective products as at the reporting date and multiplying by the weighted average effective annual interest rates for each product. The model does not make a distinction between different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties on the Group's income.

The estimated effect of prepayment risk on net interest income of the Group for the years ended 31 December 2017, 31 December 2016 and 31 December 2015 is as follows:

	Effect on net interest income
2017	(46,527)
2016	(27,487)
2015	(19,341)

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.

(Thousands of Georgian Lari)

27. Risk Management (continued)

Operating environment

Most of 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 management, 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.

28. Fair Value 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 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:

31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	202,534	202,534
Land	-	-	*38,378*	*38,378*
Residential properties	-	-	*64,038*	*64,038*
Non-residential properties	-	-	*100,118*	*100,118*
Investment securities available-for-sale	-	1,613,558	201	1,613,759
Other assets – derivative financial assets	-	13,484	-	13,484
Other assets – trading securities owned	-	-	-	-
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,501,654	-	1,501,654
Amounts due from credit institutions	-	1,216,343	-	1,216,343
Loans to customers	-	-	7,559,124	7,559,124
Finance lease receivables	-	-	65,306	65,306
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	3,948	-	3,948
Liabilities for which fair values are disclosed				
Amounts due to customers	-	7,128,147	-	7,128,147
Amounts due to credit institutions and other borrowings	-	2,518,086	644,123	3,162,209
Debt securities issued	-	468,536	294,702	763,238

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value hierarchy (continued)

31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	*152,596*	152,596
Land	-	-	*31,610*	*31,610*
Residential properties	-	-	*41,389*	*41,389*
Non-residential properties	-	-	*79,597*	*79,597*
Investment securities available-for-sale	-	1,283,607	295	1,283,902
Other assets – derivative financial assets	-	2,610	-	2,610
Other assets – trading securities owned	-	-	-	-
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,487,170	-	1,487,170
Amounts due from credit institutions	-	940,485	-	940,485
Loans to customers	-	-	6,457,145	6,457,145
Finance lease receivables	-	-	13,096	13,096
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	15,689	-	15,689
Liabilities for which fair values are disclosed				
Amounts due to customers	-	5,779,581	-	5,779,581
Amounts due to credit institutions and other borrowings	-	2,983,236	485,117	3,468,353
Debt securities issued	-	-	177,271	177,271

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	135,453	135,453
Land	-	-	24,391	*24,391*
Residential properties	-	-	39,991	*39,991*
Non-residential properties	-	-	71,071	*71,071*
Investment securities available-for-sale	-	901,945	295	902,240
Other assets – derivative financial assets	-	42,212	-	42,212
Other assets – trading securities owned	1,106	-	-	1,106
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,376,782	-	1,376,782
Amounts due from credit institutions	-	718,677	-	718,677
Loans to customers	-	-	5,285,069	5,285,069
Finance lease receivables	-	-	14,010	14,010
Liabilities measured at fair value				
Other liabilities – derivative financial liabilities	-	3,243	-	3,243
Liabilities for which fair values are disclosed				
Amounts due to customers	-	-	5,051,383	5,051,383
Amounts due to credit institutions and other borrowings	-	-	1,677,587	1,677,587
Debt securities issued	-	938,894	32,762	971,656

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

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Trading securities and investment securities

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

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of level 3 financial assets which are recorded at fair value:

	31 December 2014	Transfers from level 2	Reorganization	At 31 December 2015	At 31 December 2016	Disposal	At 31 December 2017
Level 3 financial assets							
Equity investment securities available-for-sale	1,412	28	(1,145)	295	295	(94)	201

Movements in level 3 non-financial assets measured at fair value

All investment properties are level 3. Reconciliations of their opening and closing amounts are provided in Note 12.

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

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

	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions	Carrying Amount	Effect of reasonably possible alternative assumptions
	2017		2016		2015	
Level 3 financial assets						
Equity investment securities available-for-sale	201	+/- 30	295	+/- 44	295	+/- 44

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

For equities, the Group adjusted the price-over-book-value multiple by increasing and decreasing the ratio by 10%, which is considered by the Group to be within a range of reasonably possible alternatives based on the price-over-book-value multiples used across peers within the same geographic area of the same industry.

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Fair value hierarchy (continued)

Description of significant unobservable inputs to valuations of non-financial assets

The following tables show descriptions of significant unobservable inputs to level 3 valuations of investment properties and revalued properties and equipment:

	2017	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	202,534						
Land	38,378	Market approach	Price per square metre	0.11 - 1,008 (215.8)	Square metres, land	7 - 4,667,136 (454,326)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Residential properties	64,038	Market approach	Price per square metre	24 - 2,678 (1,128)	Square metres, building	2 - 1,583 (301)	Increase (decrease) in the price per square metre would result in increase (decrease) in fair value
Non-residential properties	100,118						
	31,543	Market approach	Price	5.6k - 4.8 mln (0.3 mln)	Square metres, land	77 - 73,575 (2,540)	Increase (decrease) in the price would result in increase (decrease) in fair value
					Square metres, building	6 - 3,823 (1,195)	
	51,462	Income approach	Rent per square metere	2.1 - 67.7 (9.96)	Square metres, building	23.5 - 5,984 (2,503)	Increase (decrease) in the rent price would result in increase (decrease) in fair value
			Occupancy rate	10% - 75% (32%)			Increase (decrease) in the occupancy rate would result in increase (decrease) in fair value
			Average daily rate	78 - 244 (97)			Increase (decrease) in the average daily rate would result in increase (decrease) in fair value
	17,113	Cost approach	Land price per square metre	0.65 - 563 (53)	Square metres, land	600 - 240,000 (121,780)	Increase (decrease) in the land price per square metre would result in increase (decrease) in fair value
			Depretiated Replacement cost per square metre	259 - 648 (413)	Square metres, building	20 - 10,600 (5,943)	Increase (decrease) in the depreciated replacement cost per square metre would result in increase (decrease) in fair value

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

Financial instruments overview

Set out below is an overview of all financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2017, 31 December 2016 and 31 December 2015:

	31 December 2017		
	Loans and receivables	Available-for sale	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	1,216,343	-	-
Loans to customers	7,445,578	-	-
Finance lease receivables	65,306	-	-
Trade and other receivables (in other assets)	23,605	-	-
Equity instruments	-	201	-
Debt instruments	-	1,613,558	-
Interest rate contracts	-	-	8,869
Foreign currency derivative financial instruments	-	-	4,615
Total:	8,750,832	1,613,759	13,484
Financial liabilities			
Amounts owed to customers	7,123,866	-	-
Amounts due to credit institutions and other borrowings	3,162,209	-	-
Debt securities issued	749,655	-	-
Trade and other payables (in other liabilities)	27,482	-	-
Interest rate contracts	-	-	1,456
Foreign currency derivative financial instruments	-	-	2,492
Total:	11,063,212	-	3,948

	31 December 2016			31 December 2015		
	Loans and receivables	Available-for sale	Fair value through profit or loss	Loans and receivables	Available-for sale	Fair value through profit or loss
Financial assets						
Amounts due from credit institutions	940,485	-	-	718,677	-	-
Loans to customers	6,379,965	-	-	5,322,887	-	-
Finance lease receivables	13,096	-	-	14,010	-	-
Trade and other receivables (in other assets)	13,268	-	-	11,886	-	-
Equity instruments	-	295	-	-	295	-
Debt instruments	-	1,283,607	-	-	901,945	1,106
Foreign currency derivative financial instruments	-	-	2,610	-	-	42,212
Total:	7,346,814	1,283,902	2,610	6,067,460	902,240	43,318
Financial liabilities						
Amounts owed to customers	5,773,512	-	-	5,025,677	-	-
Amounts due to credit institutions and other borrowings	3,468,353	-	-	1,677,587	-	-
Debt securities issued	177,271	-	-	940,945	-	-
Trade and other payables (in other liabilities)	11,609	-	-	18,875	-	-
Foreign currency derivative financial instruments	-	-	15,689	-	-	3,243
Total:	9,430,745	-	15,689	7,663,084	-	3,243

(Thousands of Georgian Lari)

28. Fair Value Measurements (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities, or fair value of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2017	Fair value 2017	Unrecognised gain (loss) 2017
Financial assets			
Cash and cash equivalents	1,501,654	1,501,654	-
Amounts due from credit institutions	1,216,343	1,216,343	-
Loans to customers	7,445,578	7,559,124	113,546
Finance lease receivables	65,306	65,306	-
Financial liabilities			
Amounts due to customers	7,123,866	7,128,147	(4,281)
Amounts due to credit institutions and other borrowings	3,162,209	3,162,209	-
Debt securities issued	749,655	763,238	(13,583)
Total unrecognised change in unrealised fair value			95,682

	Carrying value 2016	Fair value 2016	Unrecognised loss 2016	Carrying value 2015	Fair value 2015	Unrecognised loss 2015
Financial assets						
Cash and cash equivalents	1,487,170	1,487,170	-	1,376,782	1,376,782	-
Amounts due from credit institutions	940,485	940,485	-	718,677	718,677	-
Loans to customers	6,379,965	6,457,145	77,180	5,322,887	5,285,069	(37,818)
Finance lease receivables	13,096	13,096	-	14,010	14,010	-
Financial liabilities						
Amounts due to customers	5,773,512	5,779,581	(6,069)	5,025,677	5,051,383	(25,706)
Amounts due to credit institutions and other borrowings	3,468,353	3,468,353	-	1,677,587	1,677,587	-
Debt securities issued	177,271	177,271	-	940,945	971,656	(30,711)
Total unrecognised change in unrealised fair value			71,111			(94,235)

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and 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 discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

2017	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	743,848	757,806	-	-	-	-	-	1,501,654
Amounts due from credit institutions	1,005,631	182,699	5,006	12,508	-	-	10,499	1,216,343
Investment securities available-for-sale	837,933	641,380	2,910	49,962	20,812	58,916	1,846	1,613,759
Loans to customers	-	1,229,603	603,533	1,380,173	1,930,946	1,024,674	1,276,649	7,445,578
Finance lease receivables	-	12,157	8,531	12,471	21,617	5,007	5,523	65,306
Total	2,587,412	2,823,645	619,980	1,455,114	1,973,375	1,088,597	1,294,517	11,842,640
Financial liabilities								
Amounts due to customers	1,678,608	1,262,626	617,035	2,955,253	538,844	39,351	32,149	7,123,866
Amounts due to credit institutions and other borrowings	204,511	1,110,011	146,966	336,673	501,056	303,325	559,667	3,162,209
Debt securities issued	-	14,911	96,995	35,241	602,508	-	-	749,655
Total	1,883,119	2,387,548	860,996	3,327,167	1,642,408	342,676	591,816	11,035,730
Net	704,293	436,097	(241,016)	(1,872,053)	330,967	745,921	702,701	806,910
Accumulated gap	704,293	1,140,390	899,374	(972,679)	(641,712)	104,209	806,910	

2016	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	1,078,904	408,266	-	-	-	-	-	1,487,170
Amounts due from credit institutions	933,689	-	3,235	2,164	-	-	1,397	940,485
Investment securities available-for-sale	110,363	1,080,185	36,415	11,323	6,269	38,971	376	1,283,902
Loans to customers	-	1,108,622	504,864	1,243,016	1,760,692	818,641	944,130	6,379,965
Finance lease receivables	-	9,259	2,496	781	548	12	-	13,096
Total	2,122,956	2,606,332	547,010	1,257,284	1,767,509	857,624	945,903	10,104,618
Financial liabilities								
Amounts due to customers	1,337,991	882,170	569,655	2,494,158	409,416	54,063	26,059	5,773,512
Amounts due to credit institutions and other borrowings	329,622	1,321,475	121,642	314,800	525,242	264,423	591,149	3,468,353
Debt securities issued	-	30,324	-	19,109	127,838	-	-	177,271
Total	1,667,613	2,233,969	691,297	2,828,067	1,062,496	318,486	617,208	9,419,136
Net	455,343	372,363	(144,287)	(1,570,783)	705,013	539,138	328,695	685,482
Accumulated gap	455,343	827,706	683,419	(887,364)	(182,351)	356,787	685,482	

2015	On Demand	Up to 3 Months	Up to 6 Months	Up to 1 Year	Up to 3 Years	Up to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	1,016,209	360,573	-	-	-	-	-	1,376,782
Amounts due from credit institutions	615,977	1,932	26,496	70,366	1,956	-	1,950	718,677
Investment securities available-for-sale	559,124	241,481	31,247	6,531	59,613	3,057	1,187	902,240
Loans to customers	-	782,684	531,829	1,017,469	1,599,724	715,701	675,480	5,322,887
Finance lease receivables	-	8,526	2,290	2,736	447	11	-	14,010
Total	2,191,310	1,395,196	591,862	1,097,102	1,661,740	718,769	678,617	8,334,596
Financial liabilities								
Amounts due to customers	1,099,076	816,646	543,264	2,019,555	446,717	80,012	20,407	5,025,677
Amounts due to credit institutions and other borrowings	92,617	516,988	98,737	235,415	361,828	111,766	260,236	1,677,587
Debt securities issued	-	48,345	-	50,623	841,977	-	-	940,945
Total	1,191,693	1,381,979	642,001	2,305,593	1,650,522	191,778	280,643	7,644,209
Net	999,617	13,217	(50,139)	(1,208,491)	11,218	526,991	397,974	690,387
Accumulated gap	999,617	1,012,834	962,695	(245,796)	(234,578)	292,413	690,387	

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities (continued)

The Group's capability to discharge its liabilities relies on its ability to realise equivalent assets within the same period of time. In the Georgian marketplace, where most of the Group's business is concentrated, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. To reflect the historical stability of current accounts, the Group calculates the minimal daily balance of current accounts over the past two years and includes the amount in the less than 1 year category in the table above. The remaining current accounts are included in the on demand category. Obligatory reserves with central banks do not have contractual maturity and are allocated in on demand category.

The Group's principal sources of liquidity are as follows:

- deposits;
- borrowings from international credit institutions;
- inter-bank deposit agreement;
- debt issues;
- proceeds from sale of securities;
- principal repayments on loans;
- interest income; and
- fees and commissions income.

As at 31 December 2017 amounts due to customers amounted to GEL 7,123,866 (2016: GEL 5,773,512, 2015: GEL 5,025,677) and represented 64% (2016: 61%, 2015: 65%) of the Group's total liabilities. These funds continue to provide a majority of the Group's funding and represent a diversified and stable source of funds. As at 31 December 2017 amounts owed to credit institutions and other borrowings amounted to GEL 3,162,209 (2016: GEL 3,468,353, 2015: GEL 1,677,587) and represented 28% (2016: 37%, 2015: 22%) of total liabilities. As at 31 December 2017 debt securities issued amounted to GEL 749,655 (2016: GEL 177,271, 2015: GEL 940,945) and represented 7% (2016: 2%, 2015: 12%) of total liabilities.

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

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

	31 December 2017		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	1,501,654	-	1,501,654
Amounts due from credit institutions	1,205,844	10,499	1,216,343
Investment securities available-for-sale	1,532,185	81,574	1,613,759
Loans to customers	3,213,309	4,232,269	7,445,578
Finance lease receivables	33,159	32,147	65,306
Investment properties	-	202,534	202,534
Prepayments	27,098	28,855	55,953
Property and equipment	-	305,474	305,474
Intangible assets	-	50,948	50,948
Investments in associates	-	11,031	11,031
Goodwill	-	33,453	33,453
Current income tax assets	696	-	696
Deferred income tax assets	-	130	130
Other assets	84,055	33,802	117,857
Total assets	7,598,000	5,022,716	12,620,716
Amounts due to customers	6,513,522	610,344	7,123,866
Amounts due to credit institutions and other borrowings	1,798,161	1,364,048	3,162,209
Debt securities issued	147,147	602,508	749,655
Current income tax liabilities	8,753	-	8,753
Deferred income tax liabilities	-	11,342	11,342
Provisions	2,815	-	2,815
Other liabilities	74,981	5,176	80,157
Total liabilities	8,545,379	2,593,418	11,138,797
Net	(947,379)	2,429,298	1,481,919

(Thousands of Georgian Lari)

29. Maturity Analysis of Financial Assets and Liabilities (continued)

	31 December 2016			31 December 2015		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,487,170	-	1,487,170	1,376,782	-	1,376,782
Amounts due from credit institutions	939,088	1,397	940,485	714,771	3,906	718,677
Investment securities available-for-sale	1,238,286	45,616	1,283,902	838,383	63,857	902,240
Loans to customers	2,856,502	3,523,463	6,379,965	2,331,982	2,990,905	5,322,887
Finance lease receivables	12,536	560	13,096	13,552	458	14,010
Investment properties	-	152,596	152,596	-	135,453	135,453
Prepayments	12,395	57	12,452	13,878	3,784	17,662
Property and equipment	-	277,394	277,394	-	273,058	273,058
Intangible assets	-	35,814	35,814	-	30,669	30,669
Investments in associates	-	9,626	9,626	-	-	-
Goodwill	-	33,453	33,453	-	33,453	33,453
Current income tax assets	18,505	-	18,505	988	-	988
Deferred income tax assets	-	194	194	-	12,106	12,106
Other assets	87,158	1,122	88,280	86,203	44,723	130,926
Total assets	6,651,640	4,081,292	10,732,932	5,376,539	3,592,372	8,968,911
Amounts due to customers	5,283,974	489,538	5,773,512	4,478,541	547,136	5,025,677
Amounts due to credit institutions and other borrowings	2,087,539	1,380,814	3,468,353	943,757	733,830	1,677,587
Debt securities issued	49,433	127,838	177,271	98,968	841,977	940,945
Current income tax liabilities	-	-	-	9,658	-	9,658
Deferred income tax liabilities	-	22,169	22,169	-	74,539	74,539
Provisions	3,380	-	3,380	1,229	1,025	2,254
Other liabilities	54,469	634	55,103	42,538	782	43,320
Total liabilities	7,478,795	2,020,993	9,499,788	5,574,691	2,199,289	7,773,980
Net	(827,155)	2,060,299	1,233,144	(198,152)	1,393,083	1,194,931

30. Related Party Disclosures

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

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

(Thousands of Georgian Lari)

30. Related Party Disclosures (continued)

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

	2017			2016			2015		
	The parent	*Entities under common control*	*Key management personnel**	*The parent*	*Entities under common control*	*Key management personnel**	*The parent*	*Entities under common control*	*Key management personnel**
Loans outstanding at 1 January, gross	9,171	64,772	1,735	9,334	51,205	1,242	7,609	78,592	2,048
Loans issued during the year	-	148,145	3,259	-	59,086	4,457	-	18,919	5,083
Loan repayments during the year	-	(76,070)	(3,236)	-	(72,589)	(4,351)	-	(153,431)	(6,811)
Reorganization	-	-	-	-	-	-	-	92,143	-
Other movements	(190)	(33,706)	600	(163)	27,070	387	1,725	14,982	922
Loans outstanding at 31 December, gross	8,981	103,141	2,358	9,171	64,772	1,735	9,334	51,205	1,242
Less: allowance for impairment at 31 December	-	(3)	(1)	-	(248)	-	-	(131)	(6)
Loans outstanding at 31 December, net	8,981	103,138	2,357	9,171	64,524	1,735	9,334	51,074	1,236
Interest income on loans	-	5,949	147	-	8,230	148	-	8,825	175
Loan impairment charge	-	-	(1)	-	-	-	-	(20)	(2)
Deposits at 1 January	202,642	207,674	15,480	84,368	198,593	16,349	134,705	4,975	17,500
Deposits received during the year	-	238,818	18,938	115,090	65,254	11,328	6,428	101,495	18,284
Deposits repaid during the year	(133,051)	(14,983)	(11,262)	-	(30,828)	(10,934)	(56,765)	(18,278)	(19,098)
Reorganization	-	-	-	-	-	-	-	110,401	-
Other movements	(26,871)	(34,797)	2,561	3,184	(25,345)	(1,263)	-	-	(337)
Deposits at 31 December	42,720	396,712	25,717	202,642	207,674	15,480	84,368	198,593	16,349
Interest expense on deposits	(6,546)	(4,316)	(374)	(3,239)	(1,592)	(614)	(2,246)	(1,263)	(402)
Other income	-	-	-	-	626	-	-	560	45
Commitments and guarantees issued	-	12,453	-	-	30,957	-	-	20,374	120
Borrowings at 1 January	394,224	-	-	-	-	-	-	-	-
Borrowings received during the year	-	-	-	586,250	-	-	-	-	-
Borrowings repaid during the year	(25,464)	-	-	(230,620)	-	-	-	-	-
Other movements	17,748	-	-	38,594	-	-	-	-	-
Borrowings at 31 December	386,508	-	-	394,224	-	-	-	-	-
Interest expense on borrowings	(25,823)	-	-	(12,229)	-	-	-	-	-
Loss from early repayments of borrowings	-	-	-	(6,979)	-	-	-	-	-
Debt securities issued	-	32,066	-	-	-	-	-	-	-

**** Key management personnel include members of the Bank's Supervisory Board and Chief Executive Officer and Deputies of the Bank.***

Compensation of key management personnel comprised the following:

	2017	2016	2015
Salaries and other benefits	7,372	4,905	4,401
Share-based payments compensation*	33,635	40,679	19,435
Social security costs	82	51	55
Total key management compensation	41,089	45,635	23,891

** In 2016 share-Based payments compensation includes termination benefits in the amount of GEL 9,820 for key management personnel reflected in the non-recurring items note (Note25).*

Key management personnel do not receive cash settled compensation, except for fixed salaries. The major part of the total compensation is share-based (Note 26). The number of key management personnel at 31 December 2017 was 19 (31 December 2016: 16, 31 December 2015: 16).

(Thousands of Georgian Lari)

31. Capital Adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the NBG in supervising the Bank and the ratios established by the Basel Capital Accord 1988.

Approved and published on 28 October 2013 by NBG, new capital adequacy regulation became effective in 2014, based on Basel II/III requirements, adjusted for NBG's discretionary items. Pillar 1 requirements became effective on 30 June 2014, with Pillar II (ICAAP) requirements becoming effective 30 June 2015. A transition period is to continue through 31 December 2017, during which the Bank will be required to comply with both, the new, and the current, capital regulations of the NBG.

During year ended 31 December 2017, the Bank and the Group complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum capital adequacy ratio of 9.6% of risk-weighted assets, computed based on the Bank's standalone special purpose financial statements prepared in accordance with NBG regulations and pronouncements. As at 31 December 2017, 31 December 2016 and 31 December 2015, the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*	*2015*
Core capital	787,225	676,692	728,139
Supplementary capital	787,225	669,940	649,607
Less: Deductions from capital	(116,716)	(79,059)	(60,311)
Total regulatory capital	1,457,734	1,267,573	1,317,435
Risk-weighted assets	11,004,699	9,360,857	7,811,398
Total capital adequacy ratio	13.2%	13.5%	16.9%

Core capital comprises share capital, additional paid-in capital and retained earnings (without current period profits), less intangible assets and goodwill. Supplementary capital includes subordinated long-term debt, current period profits and general loss provisions. Deductions from the capital include investments in subsidiaries. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

(Thousands of Georgian Lari)

31. Capital Adequacy (continued)

New NBG (Basel II) capital adequacy ratio

Effective 30 June 2014, the NBG requires banks to maintain a minimum total capital adequacy ratio of 10.5% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel II requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*	*2015*
Tier 1 capital	1,241,866	958,979	971,635
Less: Deductions from capital	(100,021)	(66,366)	(56,851)
Tier 2 capital	501,689	519,726	479,176
Total capital	1,643,534	1,412,339	1,393,960
Risk-weighted assets	11,115,315	9,790,282	8,363,369
Total capital ratio	14.8%	14.4%	16.7%
Tier 1 capital ratio	10.3%	9.1%	10.9%

Tier 1 capital comprises share capital, additional paid-in capital and retained earnings, less investments in subsidiaries, intangible assets and goodwill. Tier 2 capital includes subordinated long-term debt and general loss provisions. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the NBG.

NBG (Basel III) capital adequacy ratio

In December 2017, the NBG adopted amendments to the regulations relating to capital adequacy requirements, including amendments to the regulation on capital adequacy requirements for commercial banks, and introduced new requirements on the determination of the countercyclical buffer rate, on the identification of systematically important banks, on determining systemic buffer requirements and on additional capital buffer requirements for commercial banks within Pillar 2. The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 12.4% and Tier 1 Capital ratio of 9.9% of risk-weighted assets, computed based on the bank's stand-alone special purpose financial statements prepared in accordance with NBG regulations and pronouncements, based on Basel III requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017
Tier 1 capital	1,141,845
Tier 2 capital	501,689
Total capital	1,643,534
Risk-weighted assets	9,192,078
Total capital ratio	17.9%
Tier 1 capital ratio	12.4%

(Thousands of Georgian Lari)

31. Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio based on the consolidated statement of financial position and computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2017, 31 December 2016 and 31 December 2015, was as follows:

	2017	*2016*	*2015*
Tier 1 capital	1,471,714	1,240,270	1,232,808
Less: Deductions Goodwill	(33,340)	(33,340)	(33,340)
Tier 2 capital	560,771	561,713	471,777
Less: Deductions from capital	(9)	(9)	(1,163)
Total capital	1,999,136	1,768,634	1,670,082
Risk-weighted assets	9,750,829	7,929,784	6,692,485
Total capital ratio	20.5%	22.3%	25.0%
Tier 1 capital ratio	14.8%	15.2%	17.9%
Minimum capital adequacy ratio	8.0%	8.0%	8.0%

32. Event after the Reporting Period

In March 2018 the Bank fully settled its obligation towards JSC BGEO Group with outstanding principal amount of US150 million as at transaction date. At the same time JSC Bank of Georgia substituted JSC BGEO Group ("Issuer") as New Obligor in relation to the US350 million 2023 6.00% Notes issued on 26 July 2016 in exchange for the cash consideration. JSC Bank of Georgia replaced the Issuer as principal debtor under the Notes and assumed all the rights, obligations and liabilities of the Issuer.