JSC Bank of Georgia and Subsidiaries
Consolidated Financial Statements

31 December 2018
Together with Independent Auditor's Report

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Consolidated statement of financial position 1
Consolidated income statement 2
Consolidated statement of comprehensive income 3
Consolidated statement of changes in equity 4
Consolidated statement of cash flows 5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities 6
2. Basis of Preparation 6
3. Summary of Significant Accounting Policies 8
4. Significant Accounting Judgements and Estimates 28
5. Segment Information 32
6. Cash and Cash Equivalents 36
7. Amounts Due from Credit Institutions 36
8. Investment Securities 36
9. Loans to Customers 37
10. Finance Lease Receivables 45
11. Investment Properties 47
12. Property and Equipment and Intangible Assets 48
13. Goodwill 51
14. Taxation 53
15. Other Assets and Other Liabilities 55
16. Amounts due to customers 56
17. Amounts Owed to Credit Institutions and Other Borrowings 57
18. Debt Securities Issued 57
19. Commitments and Contingencies 58
20. Equity 59
21. Net Fee and Commission Income 60
22. Net Real Estate Revenue 61
23. Salaries and Other Employee Benefits, and General and Administrative Expense 61
24. Expected Credit Loss 62
25. Net Non-recurring Items 62
26. Share-based Payments 63
27. Risk Management 65
28. Fair Value Measurements 80
29. Maturity Analysis of Financial Assets and Liabilities 86
30. Related Party Disclosures 89
31. Capital Adequacy 90

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

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 2018, 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 2018 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.

Building a better
working world

Key audit matter	How our audit addressed it
Allowance for expected credit loss and application of IFRS 9 'Financial instruments'	
Given the significance of the allowance for expected credit loss on loans to customers to the Group's financial position, the complexity and judgements related to the estimation of expected credit losses under newly adopted IFRS 9 Financial instruments ("IFRS 9"), we considered this area as a key audit matter. The impairment for loan losses is calculated using a combination of a collective provisioning model and individual loan provisions based on discounted cash flow analyses and regression-based forward-looking estimates. Both collective and individual provisioning depend on a number of assumptions and judgments such as: ▸ Accounting interpretations and modelling assumptions used to build the models for calculating the expected credit loss (ECL); ▸ Allocation of loans to stage 1, 2 or 3 using criteria set in accordance with IFRS 9; ▸ Inputs and assumptions used to estimate the impact of multiple economic scenarios; ▸ Estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD), including the valuation of collateral; and ▸ Measurement of individually assessed provisions, including expected future cash flows and the valuation of collateral ▸ Accuracy and adequacy of financial statement disclosures. As a consequence of the judgment involved in establishing the allowance, the use of different modelling techniques, assumptions and forecasts could produce significantly different estimates of the allowance for expected credit losses. Information on the impairment of loans to customers is included in Note 9, *Loans to Customers* and Note 27, *Risk Management*, to the consolidated financial statements.	We obtained an understanding of the expected credit loss process and assessed the design and operating effectiveness of key controls, which included controls over the identification of loans to be subject to the individual allowance assessment, classification of borrowers into their respective risk grades and impairment stages, credit monitoring, data accuracy and completeness. For testing automated controls, we involved our IT specialists. We focused on analysis of the following areas during our audit: ▸ evaluating credit risk models and assumptions used to estimate key provisioning parameters, and determine expected credit losses on a portfolio basis; ▸ assessing management's judgement in relation to the identification of significant increases in credit risk on an individual and collective basis based on quantitative and qualitative criteria ▸ testing allocation of loans to respective impairment stages based on predefined criteria ▸ testing estimated future cash flows, including collateral-sourced cash flows, in relation to significant credit-impaired loans and advances to customers. Our audit procedures included evaluation of expected credit loss methodology developed by the Group in accordance with the requirements of IFRS 9 to calculate the allowance for loans and advances to customers. We assessed the reasonableness of the credit risk factors and thresholds selected by the management to determine whether significant increase in credit risk has occurred on individual and collective basis. We evaluated consistency of application of the criteria selected by the management as of the reporting date. To test allowance calculated on a collective basis, with the support of our internal modelling specialists, we evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of expected credit losses. We also analysed the sensitivity of allowances to changes in key model inputs. For a sample of significant credit-impaired corporate exposures, we challenged assumptions on estimated future cash flows, including value of collateral and probabilities of expected outcomes. We assessed the adequacy and appropriateness of disclosures on the impairment of loans to customers.

Key audit matter	How our audit addressed it
Valuation of 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. 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, which increases the judgement involved in determining these valuations. The significance and subjectivity of these valuations make them a key audit matter. Information on the valuation of investment properties is included to Note 3, Summary *of Significant Accounting Policies*, Note 11, *Investment Properties*, and Note 28, *Fair Value Measurements*, to the consolidated financial statements.	We engaged our Real Estate specialists to evaluate a sample of the Group's individually significant real estate valuations. 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. In respect of properties, which were not subject to individual valuation by the external valuer, we assessed management's assumptions about changes in the prices of such properties for the reporting period. We corroborated these by reading the market overview reports prepared by external valuers, and by reference to our understanding of the Group's real estate portfolio and observable market information. We assessed recognition of the results of the valuations and the Group's disclosures in relation to the valuation of investment properties.

Other information included in the Group's 2018 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.

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 LLC

Tbilisi, Georgia

13 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017	2016
Assets				
Cash and cash equivalents	6	1,220,524	1,501,654	1,487,170
Amounts due from credit institutions	7	1,305,191	1,216,343	940,485
Investment securities	8	1,932,553	1,613,759	1,283,902
Loans to customers	9	9,120,881	7,445,578	6,379,965
Finance lease receivables	10	108,439	65,306	13,096
Investment properties	11	155,183	202,534	152,596
Prepayments		50,068	55,953	12,452
Property and equipment	12	312,017	305,474	277,394
Intangible assets	12	76,569	50,948	35,814
Investments in associates		12,371	11,031	9,626
Goodwill	13	33,453	33,453	33,453
Current income tax assets		19,234	696	18,505
Deferred income tax assets	14	123	130	194
Other assets	15	134,573	117,857	88,280
Assets held for sale		42,408	-	-
Total assets		**14,523,587**	**12,620,716**	**10,732,932**
Liabilities				
Amounts due to customers	16	8,196,551	7,123,866	5,773,512
Amounts due to credit institutions and other borrowings	17	2,749,348	3,162,209	3,468,353
Debt securities issued	18	1,711,032	749,655	177,271
Current income tax liabilities		679	8,753	-
Deferred income tax liabilities	14	28,154	11,342	22,169
Provisions	19	4,582	2,815	3,380
Other liabilities	15	102,213	80,157	55,103
Total liabilities		**12,792,559**	**11,138,797**	**9,499,788**
Equity	20			
Share capital		27,994	27,821	27,821
Additional paid-in capital		174,011	141,154	216,030
Treasury shares		(9)	(9)	(9)
Other reserves		11,048	10,212	252
Retained earnings		1,517,984	1,302,741	975,314
Total equity attributable to shareholders of the Bank		**1,731,028**	**1,481,919**	**1,219,408**
Non-controlling interests		-	-	13,736
Total equity		**1,731,028**	**1,481,919**	**1,233,144**
Total liabilities and equity		**14,523,587**	**12,620,716**	**10,732,932**

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

Archil Gachechiladze — Chief Executive Officer

Davit Tsiklauri — Chief Financial Officer

13 March 2019

The accompanying notes on pages 6 to 91 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017	2016
Interest income				
Loans to customers		1,124,611	965,614	806,641
Investment securities		136,115	113,276	90,589
Amounts due from credit institutions		28,705	17,031	7,933
Finance lease receivables		17,947	9,464	2,879
		1,307,378	**1,105,385**	**908,042**
Interest expense				
Amounts due to customers		(254,680)	(221,410)	(194,029)
Amounts due to credit institutions and other borrowings		(204,437)	(195,594)	(137,248)
Debt securities issued		(110,762)	(43,834)	(41,583)
		(569,879)	**(460,838)**	**(372,860)**
Deposit insurance fees		(5,955)	-	-
Net interest income		**731,544**	**644,547**	**535,182**
Fee and commission income		223,320	191,000	168,386
Fee and commission expense		(93,796)	(74,730)	(58,496)
Net fee and commission income	21	**129,524**	**116,270**	**109,890**
Net real estate gain	22	5,138	5,679	8,631
Net losses on derecognition of financial assets measured at fair value through other comprehensive income		(1,023)	n/a	n/a
Net gain from investment securities available-for-sale		n/a	2,060	2,162
Net gains on financial assets at fair value through profit or loss		(878)	n/a	n/a
Net gain (loss) from other derivative financial instruments		n/a	1,478	(634)
Net gain (loss) from revaluation of investment properties	11, 12	190	7,336	(1,221)
Net gain from foreign currencies:				
– dealing		92,651	66,502	65,461
– translation differences		33,009	19,238	18,307
Net other operating income (expense)		2,898	(1,056)	1,912
Other operating non-interest income		**131,985**	**101,237**	**94,618**
Revenue		**993,053**	**862,054**	**739,690**
Salaries and other employee benefits	23	(202,225)	(186,885)	(153,760)
General and administrative expenses	23	(108,147)	(95,007)	(75,534)
Depreciation and amortisation		(42,413)	(38,414)	(34,883)
Other operating expenses		(3,756)	(3,063)	(3,425)
Operating expenses		**(356,541)**	**(323,369)**	**(267,602)**
Operating income before cost of risk		**636,512**	**538,685**	**472,088**
Expected credit loss /impairment charge on loans to customers	24	(140,192)	(156,558)	(155,366)
Expected credit loss /impairment charge on finance lease receivables	24	(164)	(475)	(161)
Other expected credit loss	24	(2,245)	n/a	n/a
Impairment charge on other assets and provisions		(17,738)	(11,316)	(5,616)
Cost of risk		**(160,339)**	**(168,349)**	**(161,143)**
Net operating income before non-recurring items		**476,173**	**370,336**	**310,945**
Net non-recurring items	25	(76,066)	(3,589)	(49,169)
Profit before income tax (expense) benefit		**400,107**	**366,747**	**261,776**
Income tax (expense) benefit	14	(56,579)	(27,840)	27,318
Profit for the year		**343,528**	**338,907**	**289,094**
Profit attributable to:				
– shareholders of the Bank		343,528	338,761	287,945
– non-controlling interests		-	146	1,149
		343,528	**338,907**	**289,094**
Basic and diluted earnings per share	20	12.3452	12.1803	10.3511

The accompanying notes on pages 6 to 91 are an integral part of these financial statements.

CONSOLIDA STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017	2016
Profit for the year		**343,528**	**338,907**	**289,094**
Other comprehensive (loss) income				
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:				
– Net change in fair value on investments in debt instruments measured at FVOCI		2,199	n/a	n/a
– Unrealized revaluation of available-for-sale securities		n/a	3,595	85,612
– Realised gain on financial assets measured at FVOCI		1,023	n/a	n/a
– Realised gain on available-for-sale securities reclassified to the consolidated income statement		n/a	(2,058)	(28,143)
–Change in allowance for expected credit losses on investments in debt instruments measured at FVOCI reclassified to the consolidated income statement		238	n/a	n/a
– (Loss) gain from currency translation differences		(4,825)	(3,259)	234
Income tax impact	14	(265)	(551)	(5,019)
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**(1,630)**	**(2,273)**	**52,684**
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:				
– Revaluation of property and equipment reclassified to investment property	11, 12	1,043	3,483	-
– Net loss on investments in equity instruments designated at FVOCI		(2,525)	n/a	n/a
Income tax impact	14	-	(781)	-
Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		**(1,482)**	**2,702**	**-**
Other comprehensive (loss) income for the year, net of tax		**(3,112)**	**429**	**52,684**
Total comprehensive income for the year		**340,416**	**339,336**	**341,778**
Total comprehensive income attributable to:				
– shareholders of the Bank		340,416	339,190	339,938
– non-controlling interests		-	146	1,840
		340,416	**339,336**	**341,778**

The accompanying notes on pages 6 to 91 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(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 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) income for the year	-	-	-	51,692	301	51,993	691	52,684
Total comprehensive income for the year	**-**	**-**	**-**	**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 20)	-	-	-	-	(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	-	-	-	-	(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) income for the year	-	-	-	936	(507)	429	-	429
Total comprehensive income for the year	**-**	**-**	**-**	**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	-	-	-	(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**
Adoption of IFRS 9 (Note 3)	-	-	-	3,268	(7,605)	(4,337)	-	(4,337)
1 January 2018	**27,821**	**141,154**	**(9)**	**13,480**	**1,295,136**	**1,477,582**	**-**	**1,477,582**
Profit for the year	-	-	-	-	343,528	343,528	-	343,528
Other comprehensive (loss) income for the year	-	-	-	(717)	(2,395)	(3,112)	-	(3,112)
Total comprehensive income for the year	**-**	**-**	**-**	**(717)**	**341,133**	**340,416**	**-**	**340,416**
Transfer of property and equipment revaluation reserve, net of tax	-	-	-	(4,240)	4,240	-	-	-
Increase in equity arising from share-based payments	-	82,483	-	-	-	82,483	-	82,483
Dividends to shareholders of the Group (Note 20)	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Sale of investments in equity instruments designated at FVOCI GCAP shares	-	-	-	2,525	(2,525)	-	-	-
Vesting of investment business shares to employees as a result of demerger	-	2,649	-	-	-	2,649	-	2,649
Issue of share capital (Note 20)	173	13,145	-	-	-	13,318	-	13,318
Contributions under share-based payment plan (Note 26)	-	(65,420)	-	-	-	(65,420)	-	(65,420)
31 December 2018	**27,994**	**174,011**	**(9)**	**11,048**	**1,517,984**	**1,731,028**	**-**	**1,731,028**

The accompanying notes on pages 6 to 91 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Thousands of Georgian Lari)

	Notes	2018	2017	2016
Cash flows from operating activities				
Interest received		1,286,400	1,086,379	894,996
Interest paid		(571,907)	(458,060)	(410,417)
Fees and commissions received		247,785	186,007	163,926
Fees and commissions paid		(93,796)	(74,730)	(58,501)
Net cash inflow from real estate		5,114	5,336	12,601
Net realised gains from trading securities		-	-	1,177
Net realised gains from investment securities		-	-	2,091
Net realised gains from foreign currencies		92,651	66,502	65,461
Recoveries of loans to customers previously written off	9	35,306	52,792	36,244
Other income received (expense paid)		18,617	(16,620)	(50,681)
Salaries and other employee benefits paid		(152,189)	(136,014)	(121,198)
General and administrative and operating expenses paid		(111,379)	(81,666)	(73,887)
Cash flows from operating activities before changes in operating assets and liabilities		**756,602**	**629,926**	**461,812**
Net (increase) decrease in operating assets				
Amounts due from credit institutions		(50,741)	(294,287)	(146,572)
Loans to customers		(1,707,438)	(1,456,372)	(719,819)
Finance lease receivables		(36,727)	(7,577)	2,291
Prepayments and other assets		(90,749)	(12,980)	46,354
Net increase (decrease) in operating liabilities				
Amounts due to credit institutions and other borrowings		(469,057)	(271,170)	1,641,229
Debt securities issued		943,026	568,250	(831,549)
Amounts due to customers		902,776	1,436,334	357,110
Other liabilities		5,704	(4,799)	11,545
Net cash flows from operating activities before income tax		**253,396**	**587,325**	**822,401**
Income tax paid		(64,508)	(9,303)	(44,326)
Net cash flow from operating activities		**188,888**	**578,022**	**778,075**
Cash flows used in investing activities				
Acquisition of subsidiaries, net of cash acquired		-	(8,133)	-
Repayment of remaining holdback amounts from previous year acquisitions		-	-	(8,768)
Net purchase of investment securities		(311,752)	(321,379)	(317,297)
Proceeds from sale of investment properties		85,143	11,067	4,455
Proceeds from sale of property and equipment and intangible assets		1,638	2,015	980
Purchase of property and equipment and intangible assets		(81,479)	(104,601)	(45,794)
Net cash flows used in investing activities		**(306,450)**	**(421,031)**	**(366,424)**
Cash flows used in financing activities				
Dividends paid		(119,760)	(211)	(200,099)
Contributions under share-based payment plan (Note 26)		(65,420)	(125,270)	(119,471)
Issue of share capital (Note 20)		13,318	-	-
Purchase of additional interests in existing subsidiaries		-	(21,701)	-
Net cash used in financing activities		**(171,862)**	**(147,182)**	**(319,570)**
Effect of exchange rates changes on cash and cash equivalents		8,374	4,675	18,307
Effect of expected credit losses on cash and cash equivalents		(80)	n/a	n/a
Net (decrease) increase in cash and cash equivalents		**(281,130)**	**14,484**	**110,388**
Cash and cash equivalents, beginning of the year	6	**1,501,654**	**1,487,170**	**1,376,782**
Cash and cash equivalents, end of the year	6	**1,220,524**	**1,501,654**	**1,487,170**

The accompanying notes on pages 6 to 91 are an integral part of these 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 2018 the Bank had 276 operating outlets in all major cities of Georgia (31 December 2017: 286, 31 December 2016: 278). The Bank's registered legal address is 29a Gagarini Street, Tbilisi 0160, Georgia.

As at 31 December 2017 BGEO Group PLC ("BGEO PLC", formerly known as Bank of Georgia Holdings PLC) was a public limited liability company incorporated in England and Wales and represented the ultimate parent company of the Bank. The shares of BGEO PLC were 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 a legal restructuring in August 2015. 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").

On 3 July 2017, BGEO Group PLC announced its intention to demerge BGEO Group PLC into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC, by the end of the first half of 2018. The demerger (hereafter referred to as "the demerger") was completed on 29 May 2018 and as a result Bank of Georgia Group PLC ("BOGG PLC") became the 100% owner of JSC BGEO Group, principal shareholder of the Bank. As at 31 December 2018 Bank of Georgia Group PLC represented the ultimate parent company of the Bank.

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 Bank is the Group's main operating unit and accounts for most of the Group's activities.

As at 31 December 2018, 31 December 2017 and 31 December 2016, JSC BGEO was the principal shareholder of the Bank:

Shareholder	*31 December 2018*	*31 December 2017*	*31 December 2016*
JSC BGEO Group	79.78%	99.55%	99.55%
Bank of Georgia Group PLC	19.78%	-	-
Others*	0.45%	0.45%	0.45%
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 2018 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 and investment properties;
- the measurement of inventories at lower of cost and net realizable value;
- the measurement of non-current assets classified as held for sale at lower of cost and fair value less costs to sell.

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 2018, 31 December 2017 and 31 December 2016 include the following subsidiaries and associates:

Subsidiaries	*Proportion of voting rights and ordinary share capital held*						
	31 December 2018	***31 December 2017***	***31 December 2016***	***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	(a)	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	–
Benderlock Investments Limited	100.00%	100.00%	100.00%	Cyprus	Investments	12/5/2009	13/10/2009
⇒ JSC Belarusky Narodny Bank	99.98%	99.98%	79.99%	Belarus	Banking	16/4/1992	3/6/2008
⇒ BNB Leasing, LLC	99.90%	99.90%	99.90%	Belarus	Leasing	30/3/2006	3/6/2008
Georgian Leasing Company, LLC (b)	100.00%	100.00%	-	Georgia	Leasing	29/10/2001	31/12/2004
⇒ Prime Leasing (b)	100.00%	100.00%	-	Georgia	Leasing	27/1/2012	21/1/2015

Associates	*Proportion of voting rights and ordinary share capital held*						
	31 December 2018	***31 December 2017***	***31 December 2016***	***Country of incorporation***	***Industry***	***Date of incorporation***	***Date of acquisition***
JSC Credit info	21.08%	21.08%	19.11%	Georgia	Financial Intermediation	14/2/2005	14/2/2005

(a) JSC Bank of Georgia sold its investment in Professional Basketball Club Dinamo Tbilisi in 2018.
(b) 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 2018. 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 date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

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

Business combinations 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 IFRS 9 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, 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 an equity investment becomes an associate, the investment is re-measured to fair value and any gain or loss previously recognised 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, certain loans to customers, 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 and liabilities

IFRS 9 replaces IAS 39 for annual periods commencing on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below. Accounting policies under IAS 39 relating to 2017 and 2016 financial year can be found in the previous year Consolidated Financial Statements.

IFRS 9 does not have any impact on regulatory capital and capital adequacy ratios.

Changes to classification and measurement

IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories are 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
- amortised cost.

3. Summary of Selected Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

Changes to classification and measurement (continued)

The accounting treatment for financial liabilities is largely the same as the requirements of IAS 39.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms as explained below. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Classification and Measurement Implementation

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

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 derecognised.

Subsequent measurement of financial instruments

Financial instruments measured at amortised cost

From 1 January 2018 the Group measures due from credit institutions, loans to customers and other financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model

There are three business models available under IFRS 9:

- Held to collect: It is intended to hold the asset to maturity to earn interest, collecting repayments of principal and interest form the counterparty.
- Hold to collect and sell: this model is similar to the hold to collect model, except that the entity may elect to sell some or all of the assets before maturity as circumstances change or to hold the assets for liquidity purposes.
- Other: all those models that do not meet the 'hold to collect' or 'hold to collect and sell' qualifying criteria.

The assessment of business model requires judgment based on facts and circumstances at the date of the assessment. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios per instrument type and is based on observable factors. The Group has considered quantitative factors (e.g., the expected frequency and volume of sales) and qualitative factors such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel; the risks that affect the performance of the business model and, in particular, the way those risks are managed; and how managers of the business are compensated.

3. Summary of Selected Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial instruments (continued)

Financial instruments measured at amortised cost (continued)

Solely Payments of Principal and Interest (SPPI)

If a financial asset is held in either to a Hold to Collect or a Hold to Collect and Sell business model, then assessment to determine whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding at initial recognition is required to determine the classification. The SPPI test is performed on an individual instrument basis.

Contractual cash flows, that represent solely payments of principal and Interest on the principal amount outstanding, are consistent with basic lending arrangement. Interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the financial asset for a particular period of time, and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Group considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument which could affect whether the instrument is considered to meet the SPPI test.

If the SPPI test is failed, such financial assets are measured at FVTPL with interest earned recognised in other interest income.

Interest Income Recognition

For Financial Instruments in Stage 1 and Stage 2, the Group calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount. Interest income for financial assets in Stage 3 is calculated by applying the EIR to the amortised cost (i.e. the gross carrying amount less credit loss allowance). For Financial Instruments classified as POCI only, interest income is calculated by applying a credit adjusted EIR to the amortised cost of these POCI assets. As a result of the amendments to International Accounting Standard 1: "presentation of Financial Statements" (IAS1) following IFRS 9, the Group will present interest revenue calculated using the EIR method separately in the income statement.

Debt instruments at FVOCI

From 1 January 2018 the Group measures debt investment securities at FVOCI when both of the following categories are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows, selling financial assets and holding such financial instruments for liquidity management purposes;
- The contractual terms of the financial asset meet the SPPI test.

These instruments comprise assets that had previously been classified as investment securities available-for-sale under IAS 39.

FVOCI debt investment securities are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI - option

Upon initial recognition, the Group elects to classify irrevocably its equity instruments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument by instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss. Equity instruments at FVOCI are not subject to impairment assessment.

Financial assets at FVTPL

Groups of financial assets for which the business model is other than held to collect and held to collect and sell are measured at FVTPL from the date of initial application of IFRS 9.

3. Summary of Selected Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

Subsequent measurement of financial instruments (continued)

Derivatives recorded at fair value through profit or loss

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, Forwards and other similar instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Net changes in the fair value of derivatives are included in net gain / loss from financial instruments measured at FVTPL, excluding gain/loss on foreign exchange derivatives which are presented in net foreign currency gain.

Financial guarantees, letter of credits and other financial commitments

Financial guarantees, letter of credits and other financial commitments are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and an ECL provision.

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.

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.

3. Summary of Selected Significant Accounting Policies (continued)

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 in 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

Changes to the impairment estimation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairment by replacing IAS 39's incurred loss approach with forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record ECL on all of its debt financial assets at amortised cost or FVOCI, finance lease receivables, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next 12 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.

Details of the Group's impairment method and quantitative impact of applying IFRS 9 as at 1 January 2018 are disclosed below.

From 1 January 2018 the Group recorded the allowance for expected credit loss for all debt instruments that are measured at amortised cost, debt instruments at FVOCI and for financial guarantees, letter of credits and other financial commitments (thereafter collectively referred to as "financial instruments"). This contrasts to the IAS 39 impairment model which was not applicable to off balance sheet financial commitments, as these were instead covered by IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*. The Group applies the simplified approach for trade, lease and other receivables and contract assets and records lifetime expected losses on them.

The determination of impairment losses and allowance moves from an incurred credit loss model whereby credit losses are recognised when a defined loss event occurs under IAS 39, to an expected credit loss model under IFRS 9, where provisions are taken upon initial recognition of the financial instruments. Under IFRS 9, the Group first evaluates individually whether objective evidence of impairment exists for loans that are individually significant. It then collectively assesses loans that are not individually significant and loans which are significant but for which there is no objective evidence of impairment available under the individual assessment.

3. Summary of Selected Significant Accounting Policies (continued)

Staged Approach to the Determination of Expected Credit Losses

IFRS 9 introduces a three stage approach to impairment for Financial Instruments that are performing at the date of origination or purchase. This approach is summarised as follows:

- Stage 1: The Group recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition. For those financial assets with a remaining maturity of less than 12 months, a PD is used that corresponds to the remaining maturity.
- Stage 2: The Group recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those Financial Instruments which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the Financial Instrument. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Financial Instruments in stage 2 are not yet deemed to be credit-impaired.
- Stage 3: If the Financial Instrument is credit-impaired, it is then moved to stage 3. The Group recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a Probability of Default (PD) of 100 % for those Financial Instruments that are credit-impaired.

Financial instruments within the scope of the impairment requirements of IFRS 9 are classified into one of the above three stages. Unless purchased or originated credit impaired, newly originated assets are classified as Stage 1 and remain in that stage unless there is considered to have been a significant increase in credit risk since initial recognition, at which point the asset is reclassified to Stage 2.

Purchased or originated credit-impaired (POCI) assets are financial Instruments that are credit-impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR (CAEIR). CAEIR takes into account all contractual terms of the financial asset and expected credit losses. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses where ECLs are calculated based on lifetime expected credit loss. Once the Financial Asset is recognised as POCI, it retains this status until derecognised.

Key judgments and estimates used under IFRS 9 are disclosed in Note 4.

3. Summary of Selected Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities

Derecognition of 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.

De-recognition and modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms based on qualitative and quantitative criteria. Once the financial asset is derecognised, the difference is recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a financial instrument the Group considers the following factors:

- Change in currency of the loan
- Change in interest rate type
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the Financial Asset and recognises a modification gain or loss in interest income. The new gross carrying amount is calculated by discounting the modified cash flows at the original effective interest rate.

Forbearance and modified loans

The Group sometimes makes concessions of modifications to the original terms of the loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of a new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. Once the asset has been identified as forborne the assets are classified in stage 3. The decision as to how long the asset remains in the forborne category is determined on a case-by-case basis for commercial and SME loans, when a minimum six consecutive payments are required for the rest of the loans to exit from the forbearance category and transfer to stage 2. Once the loan is transferred to stage 2, the Group continues to reassess whether there has been a significant increase in credit risk, however, such assets remain in stage 2 for a minimum of 12-month probation period until transferred to stage 1.

3. Summary of Selected Significant Accounting Policies (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition of 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.

Inventories

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

Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset are measured in accordance with applicable IFRSs.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.
Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the statement of financial position.

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.

3. Summary of Selected Significant Accounting Policies (continued)

Taxation

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.

Investment property is initially recognised 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 recognised and relevant professional qualifications and who have recent experience in valuation of property of similar location and category.

Gains and losses resulting from changes in the fair value of investment property as well as earned rental income are recorded in the income statement within net other income.

If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated. If an investment property satisfies asset held for sale criteria, it is reclassified to the assets held for sale category.

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.

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.

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 Selected 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 15 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.

3. Summary of Selected Significant Accounting Policies (continued)

Share-based payment transactions

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

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 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 a new equity-settled award is designated as a replacement of a cancelled equity-settled award, the replacement of equity instruments are accounted for as a 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.

Equity

Share capital

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

3. Summary of Selected Significant Accounting Policies (continued)

Equity (continued)

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. All expenses associated with dividend distribution are added to dividend amount and recorded directly through equity.

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.

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 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.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income is recognised when the Group satisfies a performance obligation. Fee income can be divided into the following 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, package services on bundled products 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.

3. Summary of Selected Significant Accounting Policies (continued)

Income and expense recognition (continued)

Customer loyalty program

Customer loyalty program points accumulated in the business are treated as deferred revenue and recognised 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 the portion of accumulated points that is expected to be utilized by customers based on statistical data. These points are treated as a liability in the statement of financial position and are only recognised 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 upon satisfaction of the performance obligations on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligation are recognised after fulfilling the corresponding criteria.

Dividend income

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

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 the income statement.

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 2018, 31 December 2017 and 31 December 2016 were:

	Lari to GBP	*Lari to USD*	*Lari to EUR*	*Lari to BYN*
31 December 2018	3.3955	2.6766	3.0701	1.2418
31 December 2017	3.5005	2.5922	3.1044	1.3083
31 December 2016	3.2579	2.6468	2.7940	1.3532

3. Summary of Selected Significant Accounting Policies (continued)

Functional, reporting currencies and foreign currency translation (continued)

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.

Adoption of new or revised standards and interpretations

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

IFRS 9 transition

The following tables summarises the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9's ECLs.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	Original classification under IAS 39	*Original carrying amount under IAS 39*	*Reclassi-fication*	*Remeasurement**		*New carrying amount under IFRS 9*	*New classification under IFRS 9*
				ECL	*Other***		
Cash and cash equivalents	Loans and receivables	1,501,654	-	(80)	-	1,501,574	Amortised cost
Amounts due from credit institutions	Loans and receivables	1,216,343	-	(598)	-	1,215,745	Amortised cost
Investment securities		1,613,759	-	-	-	1,613,759	
Debt securities	*Available for sale*	*1,613,558*	-	-	-	*1,613,558*	*FVOCI - debt*
Corporate shares	*Available for sale*	*201*	-	-	-	*201*	*FVOCI - equity*
Loans to customers	Loans and receivables	7,445,578	-	(36,919)	31,905	7,440,564	Amortised cost
Loans to customers	Loans and receivables	-	-	-	-	-	FVTPL
Other assets - accounts receivable and other loans	Loans and receivables	26,080	-	2	-	26,082	Amortised cost
Other assets - derivative financial assets	FVTPL	13,484	-	-	-	13,484	FVTPL
Deferred income tax assets	-	130	-	-	-	130	-
Finance lease receivables	-	65,306	-	92	-	65,398	-
All other assets	-	738,382	-	-	-	738,382	-
Total assets		**12,620,716**	**-**	**(37,503)**	**31,905**	**12,615,118**	
Provisions	-	(2,815)	-	(868)	-	(3,683)	-
Deferred income tax liabilities	-	(11,342)	-	-	2,129	(9,213)	-
All other liabilities	-	(11,124,640)	-	-	-	(11,124,640)	-
Total liabilities		**(11,138,797)**	**-**	**(868)**	**2,129**	**(11,137,536)**	
Net impact on equity due to adopting IFRS 9 at 1 January 2018			**-**	**(38,371)**	**34,034**		

* Re-measurement in the above table includes the effect of ECL in the amount of GEL 1,677 recognised on contractually accrued interest income ("ECL gross-up").
** Other re-measurement represents the reinstatement effect of previously written-off gross loans to customers due to the change in write-off policy as a result of IFRS 9 application.

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

IFRS 9 had no impact on the Group's financial liabilities.

The application of these policies resulted in reclassification set out in the table above and explained below:

a) Loans to customers

As of 1 January 2018, the Group assessed its business model for loans to customers which are mostly held to collect the contractual cash flows. The Group has identified a certain group of loans issued by one of the Group entities for which the business model is other than held to collect and held to collect and sell. This loan portfolio which was previously classified at amortized cost was reclassified to FVTPL from the date of initial application. The change in measurement basis did not result in material re-measurement for the Group. The reminder of the Group's loans to customers is held to collect contractual cash flows, meets SPPI criteria and therefore is measured at amortised cost.

b) Securities

Investment securities other than equity instruments and those securities held for trading
As at 1 January 2018 the Group has assessed its liquidity portfolio which had previously been classified as AFS debt instruments. The Group concluded that these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets and meet SPPI criteria. Accordingly, the Group has classified these investments as debt instruments measured at FVOCI.

Equity instruments

The Group has elected to irrevocably designate investment securities of GEL 201 in the portfolio of non-trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available for sale. The changes in fair value of such securities is no longer to be reclassified to profit or loss when they are disposed of.

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Other reserves and retained earnings
Other reserves	
Closing balance under IAS 39 (31 December 2017)	10,212
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	3,351
Income tax in relation to the above	(83)
Opening balance under IFRS 9 (1 January 2018)	13,480
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	1,302,741
Recognition of IFRS 9 ECLs including those measured at FVOCI (see below)	(43,399)
Reinstatement of loans to customers previously written off *	33,582
Income tax in relation to the above	2,212
Opening balance under IFRS 9 (1 January 2018)	1,295,136
Total change in equity due to adopting IFRS 9	**(4,337)**

* As at transition date, the change in write-off policy as a result of IFRS 9 application resulted in reinstatement of loans to customers previously written off.

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

The following table reconciles the aggregate opening loan loss provision allowance under IAS 39 and provisions for loan commitments and financial guarantees contracts in accordance with IAS 37 *Provisions, Contingent liabilities and Contingent Assets* to the ECL allowance under IFRS 9.

	Loan loss provision under IAS 39 / IAS 37	*Remeasure-ment*	*ECL net-off on accrued interest*	*ECLs under IFRS 9*
Loans and receivables (IAS 39) / Financial assets at amortized cost (IFRS 9)	**31 Dec 2017**			**1 January 2018**
Cash and cash equivalents	-	80	-	80
Amounts due from credit institutions	-	598	-	598
Loans to customers	274,540	36,919	17,273	328,732
Other assets - accounts receivable and other loans	40,591	(2)	-	40,589
	315,131	**37,595**	**17,273**	**369,999**
Available for sale financial instruments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities	-	3,351	-	3,351
	-	**3,351**	**-**	**3,351**
Finance lease receivables	**2,380**	**(92)**	**-**	**2,288**
Provisions	**2,815**	**868**	**-**	**3,683**
	320,326	**41,722**	**17,273**	**379,321**

Hedge Accounting

IFRS 9 incorporates new hedge accounting rules that intend to better align hedge accounting with risk management practices. Generally, some restrictions under IAS 39 rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group has not applied hedge accounting

3. Summary of Selected Significant Accounting Policies (continued)

Adoption of new or revised standards and interpretations (continued)

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. The amendment has no effect on the Group's financial position and performance.

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. The amendment has no effect on the Group's financial position and performance.

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. Since the Group's current practice is in line with the new requirements the amendment did not have any material effect on the Group's financial position and performance.

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.

3. Summary of Selected Significant Accounting Policies (continued)

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 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.

Transition to IFRS 16

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group plans to apply the standard using a modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. The Standard will be applied to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4. The Group will apply the recognition exemptions on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. A lease liability will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. Right-of-use assets will be measured on transition at an amount equal to the lease liability, adjusted by the amount of any prepaid amounts recognised immediately before the date of initial application.

The Group has completed an initial assessment of the potential impact of transition to IFRS 16 on its consolidated financial statements. Based on the data as at 1 January 2019, the Group estimates that the adoption of the new standard will result in an increase in the Group's liabilities by GEL 75,326 and recognition of right-of-use assets of GEL 89,875, of which GEL 14,349 is expected to be reclassified from prepayments to right-of-use assets.

Annual Improvements 2015-2017 Cycle

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.

4. Significant Accounting Judgements and Estimates

In the process of applying the Group's accounting policies, the board of directors and management use their judgement and make estimates in determining the amounts recognised in the consolidated financial statements. The most significant judgements 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 judgement 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 notes 11, while valuation inputs and techniques are presented in note 28. The Group's properties are 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 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 financial assets

IFRS 9 requires management to make a number of judgments, assumptions and estimates that affect the allowance for ECL. Estimates and judgments are based on management's knowledge and historical experience. A summary of the key judgments made by management is set out below.

Definition of default, credit-impaired and cure (Note 27)

The Group's definition of default is based on quantitative and qualitative criteria. The definition may differ across products. The definition is consistent with the definition used for internal credit risk management purposes and it corresponds with internal financial instrument risk classification rules. A counterparty is classified as defaulted at the latest when payments of interest, principal or fees are overdue for more than 90 days or when bankruptcy, fraud, insolvency proceedings of enforced liquidation have commenced or there is other evidence that payment obligations will not be fully met. The determination of whether a Financial Instrument is credit-impaired focusses on default risk, without taking into consideration the effects of credit risk mitigations such as collateral or guarantees.

An instrument is classified as credit-impaired if the counterparty is defaulted and/or the instrument is POCI.

Once the financial asset is classified as credit-impaired (except for POCIs) it remains as such unless all past due amounts have been rectified or there is general evidence of credit recovery. Minimum period of consecutive 6 months payment is applied as exit criteria to Financial Assets restructured due to credit risk other than corporate loan portfolio and debts instruments measured at FVOCI where exit criteria are determined as exit from bankruptcy or insolvency status, disappearance of liquidity problems or existence of other general evidence of credit recovery assessed on individual basis. For other credit-impaired financial Instruments exit criteria is determined as repayment of entire overdue amount other than through refinancing or foreclosure.

Once a credit-impaired financial asset meets default exit criteria, it remains in stage 2 at least for the next 12 consecutive months. After 12 consecutive payments it is transferred to stage 1 if it's credit risk is not significantly higher than at origination date.

4. Significant Accounting Judgements and Estimates (continued)

Significant Increase in Credit Risk (SICR)

A significant increase in credit risk is not a defined term per IFRS 9, and is determined by management, based on their experience and judgment. In assessing whether the credit risk has significantly increased the Group has identified a series of qualitative and quantitative criteria based on undertaking the holistic analysis of various factors including those which are specific to a particular financial instrument or to a borrower as well as those applicable to particular sub-portfolios. These criteria are:

- A significant increase in credit risk, expressed in the relative and/or absolute increase in the risk of default since initial recognition. SICR is determined based on comparison between credit risk ratings (internal or external) as of the origination date and credit risk ratings as of the reporting date for each financial asset individually. Thresholds are determined separately for corporate, retail and SME and other financial instrument portfolios depending on initial grade assigned at origination.
- Existence of forecast of adverse changes in commercial, financial or economic conditions that adversely affect the creditworthiness of the borrower.
- Modification of the contractual terms due to financial problems of the borrower other than default
- The days past due on individual contract level breached the threshold of 30 days.
- Other qualitative indicators such as external market indicators of credit risk or general economic conditions which indicate that the level of risk has been increased significantly since origination.

The above noted SICR indicators are identified at Financial Instrument level in order to track changes in credit risk since initial recognition date.

Measurement of expected credit losses

ECL reflects an unbiased, probability-weighted estimate based on a combination of the following principal factors: probability of default (PD), loss given default (LGD) and exposure at default (EAD) which are further explained below:

PD estimation: The Group estimates PD based on combination of rating model calibration results and migration matrices approach which is further adjusted for macroeconomic expectations for minimum three years onwards for all portfolios, to represent the forward-looking estimators of the PD parameters. The migration matrix is built in a way to reflect the weighted average yearly migration over the historical date period. The risk groups are determined in a way to ensure intra-group homogeneity and differentiation of expected PD levels. For loan portfolio other than corporate loans, PD is further adjusted considering time since financial instrument origination. The models incorporate both qualitative and quantitative information, and where practical build on information from top rating agencies, Credit Bureau or internal Credit rating systems. Since a Stage 3 Financial Instruments are defaulted, the probability of default is equal to 100%.

Exposure of default (EAD): The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial asset. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals discounted at the EIR. To calculate EAD for a Stage 1 Financial Instruments, the Group assesses the possible default events within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI Financial Instruments, the exposure at default is considered for events over the lifetime of the instruments. The Group determines EAD differently for products with the repayment schedules and those without repayment schedules. For Financial Instruments with repayment schedules the Group estimates forward looking EAD using the contractual cash flow approach with further corrections for expected prepayments and overdue days. For products without the repayment schedules such as credit cards, credit lines and financial guarantees the Group estimates the forward looking EAD using the limit utilisation approach.

Loss given default (LGD): LGD is defined as the likely loss in case of a counterparty default. It provides an estimation of the exposure that cannot be recovered in a default event and therefore captures the severity of a loss. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected pay-outs from bankruptcy proceedings for unsecured claims and where applicable time to realization of collateral and the seniority of claims. The Group segments its Financial Instruments into homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types). Based on this information, the Group estimates the recovery rate (other than through collateral), cure rate and probability of re-default. Recovery through collateral is further considered in LGD calculations individually for each Financial Instrument.

4. Significant Accounting Judgements and Estimates (continued)

Assets considered in the ECL calculations

IFRS 9 requires cash flows expected from collateral and other credit enhancements to be reflected in the ECL calculation. The treatment and reflection of collateral for IFRS 9 purposes is in line with general risk management principles, policies and processes of the Group. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. The fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis for all material exposures.

Forward-Looking Information

Under IFRS 9, the allowance for credit losses is based on reasonable and supportable forward looking information obtainable without undue cost or effort, which takes into consideration past events, current conditions and forecasts of future economic conditions.

To incorporate forward-looking information into the Group's allowance for credit losses, the Group uses the macroeconomic forecasts provided by National Bank of Georgia for group companies operating in Georgia, while data used by Belarusky Narodny Bank (the "BNB") is provided by a non-governmental research center operating in Belarus. Macroeconomic variables covered by these forecasts and which the Group incorporated in its ECL assessment model include GDP growth foreign exchange rate and inflation rate. These forward-looking macroeconomic variables are updated on a semi-annual basis for Georgian companies and on a quarterly basis for BNB.

The determination of the probability weighted ECL requires evaluating a range of diverse and relevant future economic conditions. To accommodate this requirement, the Group uses three different economic scenarios in the ECL calculation: an upside (weight 0.25), a baseline (weight 0.50) and downside (weight 0.25), scenario relevant for each respective portfolio. A weight is computed for each scenario by using a probabilistic economic model that considers recent information as well as historical data provided by National Bank of Georgia.

The Group considers these forecasts to represent its best estimate of the possible outcomes based on reliable available information.

Forward-looking variable assumptions

The most significant period-end assumptions used for ECL estimate as at 31 December 2018 per geographical segments are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Georgia

Key Drivers	ECL Scenario	Assigned Weight	As at 31 December 2018			As at 1 January 2018		
			2019	2020	2021	2018	2019	2020
GDP growth in %								
	Upside	25%	6.00%	5.50%	5.00%	5.50%	6.00%	5.70%
	Base case	50%	5.00%	5.00%	5.00%	4.50%	4.80%	5.00%
	Downside	25%	2.00%	2.50%	3.50%	3.00%	2.00%	3.00%
GEL/USD exchange rate %								
	Upside	25%	10.00%	5.00%	-5.00%	5.00%	7.00%	0.00%
	Base case	50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Downside	25%	-15.00%	-10.00%	5.00%	-10.00%	-15.00%	-10.00%
CPI inflation rate in %								
	Upside	25%	3.40%	3.20%	3.00%	2.50%	2.50%	2.70%
	Base case	50%	2.90%	3.00%	3.00%	3.50%	3.00%	3.00%
	Downside	25%	4.50%	4.00%	3.00%	4.50%	4.30%	3.80%

4. Significant Accounting Judgements and Estimates (continued)

Belarus

Key Drivers	ECL Scenario	Assigned Weight	As at 31 December 2018				As at 1 January 2018			
			2019Q1	2019Q2	2019Q3	2019Q4	2018Q1	2018Q2	2018Q3	2018Q4
GDP growth in %										
	Upside	25%	0.87%	1.13%	1.98%	2.82%	3.24%	3.38%	3.56%	3.11%
	Base case	50%	0.40%	0.30%	0.75%	1.41%	2.96%	2.61%	2.24%	1.58%
	Downside	25%	-0.07%	-0.53%	-0.47%	0.00%	2.67%	1.85%	1.02%	-0.14%
BYN/USD exchange rate %										
	Upside	25%	8.23%	6.94%	4.25%	2.55%	4.78%	4.97%	5.31%	5.56%
	Base case	50%	10.11%	9.55%	7.61%	5.57%	5.45%	5.91%	6.39%	6.78%
	Downside	25%	12.61%	13.50%	12.83%	10.95%	6.12%	6.69%	7.15%	8.17%
CPI inflation rate in %										
	Upside	25%	9.06%	5.70%	0.35%	5.59%	1.87%	4.22%	8.91%	4.74%
	Base case	50%	10.90%	7.22%	1.73%	6.80%	5.00%	8.05%	13.21%	9.77%
	Downside	25%	12.75%	8.72%	3.09%	7.99%	7.94%	11.06%	16.15%	13.39%

All other parameters held constant, increase in GDP growth and decrease in foreign exchange rate and inflation would result in decrease in ECL, with opposite changes resulting in ECL increase. GDP growth input has the most significant impact on ECL, followed by foreign exchange rate and inflation. Retail portfolio ECL is less affected by foreign exchange rate inputs due to larger share of GEL-denominated exposures. However, retail portfolio ECL is affected by inflation which does not have significant impact on corporate ECL.

Aggregation of financial instruments for collective assessment

For the purpose of a collective evaluation of impairment, financial instruments are grouped within homogeneous pools as follows: corporate loan portfolio is grouped on the basis of loan repayment source type; retail loan portfolio is grouped on the basis of credit risk characteristics such as an asset type, collateralisation level, repayment source type and other relevant factors. As for SME and Micro loan portfolios, financial instruments are grouped based on as asset type, overdue buckets, collateralization level and other relevant factors.

Determination of expected life for revolving facilities

For revolving products the expected life of financial instrument is determined either with reference to the next renewal date or with the reference to the behavioural expected life of the financial instrument estimated based on the empirical observation of the lifetime.

Write offs

The Group writes-off financial assets when there is no reasonable expectation of recovery which is materially unchanged for corporate and unsecured loan portfolios or for loans secured by collateral other than real estate as compared to the previous accounting policy under IAS 39. For mortgages and other loans secured by real estate the number of overdue days after which the balances are considered to be irrecoverable and are to be written off has been increased from 365 to 1460 days. If the amount to be written off is greater than the accumulated loan loss allowance, the difference is first treated as an expected credit loss expense. Any subsequent recoveries are credited to expected credit loss expense.

5. 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 income statement.

Transactions between operating segments are on an arm's length basis in a similar manner to 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 revenues in 2018, 2017 or 2016.

5. 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 2018:

	Corporate banking	*Retail banking*	*Investment management*	*BNB*	*Other*	*Intersegment transactions and balances*	*Total*
Net interest income	132,378	547,524	24,900	25,794	930	18	731,544
Net fees and commission income (expense)	22,406	98,497	821	7,805	(5)	-	129,524
Net real estate gain (loss)	4,269	396	3	657	8	(195)	5,138
Net gains (losses) from foreign currencies	49,758	55,374	3,935	16,605	(12)	-	125,660
Other revenues	109	1,142	(200)	138	(2)	-	1,187
Revenue	**208,920**	**702,933**	**29,459**	**50,999**	**919**	**(177)**	**993,053**
Operating expenses	(64,244)	(251,811)	(11,109)	(29,252)	(302)	177	(356,541)
Operating income (expense) before cost of risk	**144,676**	**451,122**	**18,350**	**21,747**	**617**	**-**	**636,512**
Cost of risk	(26,450)	(130,742)	(77)	(3,070)	-	-	(160,339)
Net operating income (loss) before non-recurring items	**118,226**	**320,380**	**18,273**	**18,677**	**617**	**-**	**476,173**
Net non-recurring items	(14,337)	(50,339)	(1,891)	(716)	(8,783)	-	(76,066)
Profit (loss) before income tax (expense) benefit	**103,889**	**270,041**	**16,382**	**17,961**	**(8,166)**	**-**	**400,107**
Income tax expense	(13,812)	(36,735)	(2,402)	(3,545)	(85)	-	(56,579)
Profit (Loss) for the year	**90,077**	**233,306**	**13,980**	**14,416**	**(8,251)**	**-**	**343,528**
Assets and liabilities							
Total assets	4,265,741	9,490,405	83,309	680,550	15,269	(11,687)	14,523,587
Total liabilities	3,731,788	8,410,833	66,147	595,287	191	(11,687)	12,792,559
Other segment information							
Property and equipment	5,739	48,160	402	1,841	48	-	56,190
Intangible assets	2,774	36,223	226	1,343	67	-	40,633
Capital expenditure	**8,513**	**84,383**	**628**	**3,184**	**115**	**-**	**96,823**
Depreciation	(3,522)	(28,339)	(305)	(954)	-	-	(33,120)
Amortization	(935)	(7,877)	(72)	(409)	-	-	(9,293)

5. 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 risk	**125,375**	**371,899**	**17,674**	**24,296**	**(559)**	**-**	**538,685**
Cost of 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 (loss) before income tax 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)

5. 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 before cost of risk	**139,773**	**291,940**	**14,993**	**25,044**	**338**	**-**	**472,088**
Cost of risk	(70,075)	(75,690)	419	(15,797)	-	-	(161,143)
Net operating income 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 before income tax (expense) benefit	**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	**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)

6. Cash and Cash Equivalents

	2018	*2017*	*2016*
Cash on hand	513,222	464,877	478,256
Current accounts with central banks, excluding obligatory reserves	298,788	91,692	150,152
Current accounts with other credit institutions	236,653	181,131	446,142
Time deposits with credit institutions with maturity of up to 90 days	172,003	763,954	412,620
Cash and cash equivalents	**1,220,666**	**1,501,654**	**1,487,170**
Less – Allowance for expected credit loss / impairment loss	(142)	-	-
Cash and cash equivalents	**1,220,524**	**1,501,654**	**1,487,170**

As at 31 December 2018, GEL 315,081 (2017: GEL 929,676, 2016: GEL 812,798) 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 3.00% interest per annum on these deposits (2017: up to 2.00%, 2016: up to 0.90%). 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.

7. Amounts Due from Credit Institutions

	2018	*2017*	*2016*
Obligatory reserves with central banks	1,244,885	1,000,565	934,996
Time deposits with maturity of more than 90 days	43,459	209,227	38
Inter-bank loan receivables	17,586	6,551	5,451
Amounts due from credit institutions	**1,305,930**	**1,216,343**	**940,485**
Less – Allowance for expected credit loss / impairment loss	(739)	-	-
Amounts due from credit institutions	**1,305,191**	**1,216,343**	**940,485**

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 deposits (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 regulation. The Group earned up to 1.00% interest on obligatory reserves with NBG and NBRB for the years ended 31 December 2018 (2017: 1.00%, 2016: 0.25%).

As at 31 December 2018, inter-bank loan receivables include GEL 17,586 (2017: GEL 6,551, 2016: GEL 2,164) placed with non-OECD banks.

8. Investment Securities

	2018	*2017*	*2016*
Investment securities measured at FVOCI - debt instruments	1,932,087	n/a	n/a
Investment securities designated as at FVOCI - equity investments	466	n/a	n/a
Available for sale investment securities	n/a	1,613,759	1,283,902
Investment securities	**1,932,553**	**1,613,759**	**1,283,902**

8. Investment Securities (continued)

	2018	*2017*	*2016*
Georgian ministry of Finance treasury bonds*	899,024	n/a	n/a
Georgian ministry of Finance treasury bills**	100,111	n/a	n/a
Certificates of deposit of central banks***	71,156	n/a	n/a
Other debt instruments****	861,796	n/a	n/a
Investment securities measured at FVOCI - debt instruments	**1,932,087**	**n/a**	**n/a**

	2018	*2017*	*2016*
Georgian ministry of Finance treasury bonds*	n/a	847,839	811,531
Georgian ministry of Finance treasury bills**	n/a	77,460	88,411
Certificates of deposit of central banks***	n/a	73,415	24,015
Other debt instruments****	n/a	614,844	359,650
Corporate shares	n/a	201	295
Available for sale investment securities	**n/a**	**1,613,759**	**1,283,902**

** GEL 573,517 was pledged for short-term loans from the NBG (2017: GEL 448,558, 2016: GEL 712,169).*
*** Nil was pledged for short-term loans from the NBG (2017: Nil, 2016: GEL 55,842).*
**** Nil was pledged for short-term loans from the NBG (2017: Nil, 2016: GEL 9,402).*
***** GEL 674,616 was pledged for short-term loans from the NBG (2017: GEL 475,735, 2016: GEL 286,832).*

Other debt instruments as at 31 December 2018 mainly comprises bonds issued by European Bank for Reconstruction and Development of GEL 249,659 (2017: GEL 268,057, 2016: 133,055), GEL denominated bonds issued by The Netherlands Development Finance Company of GEL 163,454 (2017: nil, 2016: nil), GEL denominated bonds issued by Black Sea Trade and Development Bank of GEL 136,504 (2017: GEL 60,625, 2016: GEL 60,454), GEL denominated bonds issued by International Finance Corporation of GEL 110,545 (2017: GEL 110,862, 2016: GEL 28,402), GEL denominated bonds issued by Asian Development Bank of GEL 65,145 (2017: GEL 65,245, 2016: GEL 64,921), and Dollar denominated bonds issued by Internationally recognised investment bank of nil (2017: GEL 26,666, 2016: nil).

During the period expected credit loss recognised on investment securities measured at FVOCI - debt instruments amounted GEL 1,619 (2017: n/a, 2016: n/a) that was mainly due to the increase in gross carrying value for the period.

9. Loans to Customers

	2018	*2017*	*2016*
Commercial loans	2,794,818	2,412,513	2,473,016
Consumer loans	1,876,888	1,751,106	1,367,228
Micro and SME loans	2,129,215	1,776,044	1,493,937
Residential mortgage loans	2,549,453	1,712,515	1,234,176
Gold – pawn loans	80,771	67,940	60,685
Loans to customers at amortised cost, gross	**9,431,145**	**7,720,118**	**6,629,042**
Less – Allowance for expected credit loss / impairment loss	(310,264)	(274,540)	(249,077)
Loans to customers at amortised cost, net	**9,120,881**	**7,445,578**	**6,379,965**

As at 31 December 2018, loans to customers carried at GEL 357,342 (2017: GEL 333,944, 2016: 177,825) were pledged for short-term loans from the NBG.

9. Loans to Customers (continued)

ECL

Movements of the gross loans and respective allowance for expected credit loss / impairment of loans to customers by class are as follows, within which the new financial asset originated or purchased and the assets repaid during the year include the effects from revolving loans and increase of exposure to clients, where existing loans have been repaid with new contracts issued during the year:

Commercial loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,745,670**	**362,673**	**292,913**	**26,847**	**2,428,103**
New financial asset originated or purchased	2,718,737	88,529	9,875	-	2,817,141
Transfer to Stage 1	353,609	(353,487)	(122)	-	-
Transfer to Stage 2	(490,844)	540,968	(50,124)	-	-
Transfer to Stage 3	(34,031)	(43,065)	77,096	-	-
Assets derecognized (excluding write-offs)	(106,070)	(847)	-	-	(106,917)
Assets repaid	(2,091,118)	(266,330)	(71,492)	(13,664)	(2,442,604)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(44,675)	-	(44,675)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	-	-	3,437	(151)	3,286
Currency translation differences	(11,660)	(1,553)	(499)	-	(13,712)
Net other changes	133,240	941	23,096	(5,995)	151,282
Balance at 31 December 2018	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**
Individually assessed	-	-	240,708	988	241,696
Collectively assessed	2,217,533	327,829	1,711	6,049	2,553,122
Balance at 31 December 2018	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**

Commercial loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**4,757**	**5,305**	**167,520**	**5,506**	**183,088**
New financial asset originated or purchased	7,631	43	277	-	7,951
Transfer to Stage 1	1,338	(1,338)	-	-	-
Transfer to Stage 2	(1,349)	1,693	(344)	-	-
Transfer to Stage 3	(1,472)	(647)	2,119	-	-
Impact on ECL of exposures transferred between stages during the year	(495)	884	2,938	-	3,327
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(2,836)	(2,838)	(14,259)	(413)	(20,346)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(44,675)	-	(44,675)
Recoveries of amounts previously written off	-	-	2,914	-	2,914
Unwind of discount	-	-	3,437	(151)	3,286
Currency translation differences	499	246	(122)	-	623
Net other measurement of ECL	(3,532)	2,204	36,578	(4,418)	30,832
Balance at 31 December 2018	**4,541**	**5,552**	**156,383**	**524**	**167,000**
Individually assessed	-	-	155,946	495	156,441
Collectively assessed	4,541	5,552	437	29	10,559
Balance at 31 December 2018	**4,541**	**5,552**	**156,383**	**524**	**167,000**

9. Loans to Customers (continued)

ECL (continued)

Consumer loans at amortised cost, gross:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,529,130**	**147,105**	**75,918**	**88**	**1,752,241**
New financial asset originated or purchased	2,139,297	11,259	2,224	4,776	2,157,556
Transfer to Stage 1	272,027	(241,184)	(30,843)	-	-
Transfer to Stage 2	(457,067)	470,935	(13,868)	-	-
Transfer to Stage 3	(167,089)	(175,960)	343,049	-	-
Assets derecognized (excluding write-offs)	-	-	(363)	-	(363)
Assets repaid	(1,679,766)	(110,816)	(174,039)	(472)	(1,965,093)
Impact of modifications	-	-	(2,124)	59	(2,065)
Write-offs	-	-	(127,298)	(73)	(127,371)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Currency translation differences	(872)	(8)	(29)	-	(909)
Net other changes	14,420	(185)	19,982	77	34,294
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**
Individually assessed	-	-	325	-	325
Collectively assessed	1,650,080	101,146	120,866	4,471	1,876,563
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**

Consumer loans at amortised cost, ECL:	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**38,560**	**15,646**	**43,134**	**14**	**97,354**
New financial asset originated or purchased	92,269	2,050	883	255	95,457
Transfer to Stage 1	40,697	(26,102)	(14,595)	-	-
Transfer to Stage 2	(29,909)	36,760	(6,851)	-	-
Transfer to Stage 3	(52,634)	(21,277)	73,911	-	-
Impact on ECL of exposures transferred between stages during the year	(17,251)	(2,270)	26,661	-	7,140
Assets derecognized (excluding write-offs)	-	-	(3)	-	(3)
Assets repaid	(37,773)	(12,836)	(73,098)	(36)	(123,743)
Impact of modifications	-	-	-	(420)	(420)
Write-offs	-	-	(127,298)	(73)	(127,371)
Recoveries of amounts previously written off	-	-	22,743	-	22,743
Unwind of discount	-	-	5,839	16	5,855
Currency translation differences	57	34	5	-	96
Net other measurement of ECL	(14,362)	17,350	110,812	633	114,433
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**
Individually assessed	-	-	111	-	111
Collectively assessed	19,654	9,355	62,032	389	91,430
Balance at 31 December 2018	**19,654**	**9,355**	**62,143**	**389**	**91,541**

9. Loans to Customers (continued)

ECL (continued)

Micro and SME loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**1,625,728**	**57,178**	**114,928**	**3,401**	**1,801,235**
New financial asset originated or purchased	1,923,582	3,787	96	1,123	1,928,588
Transfer to Stage 1	84,240	(78,991)	(5,249)	-	-
Transfer to Stage 2	(212,351)	222,077	(9,726)	-	-
Transfer to Stage 3	(38,253)	(63,122)	101,375	-	-
Assets derecognized (excluding write-offs)	-	-	(956)	-	(956)
Assets repaid	(1,498,299)	(57,258)	(57,425)	(1,098)	(1,614,080)
Impact of modifications	-	-	(1,150)	(2)	(1,152)
Write-offs	-	-	(31,200)	(28)	(31,228)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Currency translation differences	(5,179)	(348)	(1,506)	-	(7,033)
Net other changes	34,496	1,988	9,123	(1,171)	44,436
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**
Individually assessed	-	-	9,806	-	9,806
Collectively assessed	1,913,964	85,311	117,899	2,235	2,119,409
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**

Micro and SME loans loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**6,690**	**2,934**	**34,533**	**410**	**44,567**
New financial asset originated or purchased	10,485	-	-	201	10,686
Transfer to Stage 1	3,622	(2,473)	(1,149)	-	-
Transfer to Stage 2	(3,692)	5,215	(1,523)	-	-
Transfer to Stage 3	(1,990)	(2,185)	4,175	-	-
Impact on ECL of exposures transferred between stages during the year	(1,162)	1,111	3,247	-	3,196
Assets derecognized (excluding write-offs)	-	-	(200)	-	(200)
Assets repaid	(5,500)	(1,377)	(13,533)	(1)	(20,411)
Impact of modifications	-	-	-	(183)	(183)
Write-offs	-	-	(31,200)	(28)	(31,228)
Recoveries of amounts previously written off	-	-	7,198	-	7,198
Unwind of discount	-	-	2,197	10	2,207
Currency translation differences	97	256	(665)	-	(312)
Net other measurement of ECL	889	1,972	26,646	(339)	29,168
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**
Individually assessed	-	-	7,091	-	7,091
Collectively assessed	9,439	5,453	22,635	70	37,597
Balance at 31 December 2018	**9,439**	**5,453**	**29,726**	**70**	**44,688**

9. Loans to Customers (continued)

ECL (continued)

Residential mortgage loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Balance at 1 January 2018	**1,583,402**	**83,581**	**52,043**	**751**	**1,719,777**
New financial asset originated or purchased	1,784,950	532	17	24,088	1,809,587
Transfer to Stage 1	161,836	(152,752)	(9,084)	-	-
Transfer to Stage 2	(226,504)	234,139	(7,635)	-	-
Transfer to Stage 3	(73,754)	(49,756)	123,510	-	-
Assets derecognized (excluding write-offs)	-	-	(1,830)	-	(1,830)
Assets repaid	(939,819)	(31,367)	(71,161)	(2,025)	(1,044,372)
Impact of modifications	-	-	(689)	(1)	(690)
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Currency translation differences	(2)	-	-	-	(2)
Net other changes	61,098	2,432	2,521	440	66,491
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**
Individually assessed	-	-	732	2,451	3,183
Collectively assessed	2,351,207	86,809	87,517	20,737	2,546,270
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**

Residential mortgage loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	***Stage 2***	***Stage 3***	***POCI***	***Total***
Balance at 1 January 2018	**302**	**59**	**3,267**	**61**	**3,689**
New financial asset originated or purchased	1,315	-	-	595	1,910
Transfer to Stage 1	230	(92)	(138)	-	-
Transfer to Stage 2	(57)	209	(152)	-	-
Transfer to Stage 3	(982)	(37)	1,019	-	-
Impact on ECL of exposures transferred between stages during the year	(173)	(106)	1,436	-	1,157
Assets derecognized (excluding write-offs)	-	-	(41)	-	(41)
Assets repaid	(94)	(9)	(4,237)	(94)	(4,434)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(2,195)	(86)	(2,281)
Recoveries of amounts previously written off	-	-	2,338	-	2,338
Unwind of discount	-	-	414	21	435
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	(303)	7	3,672	592	3,968
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**
Individually assessed	-	-	-	-	-
Collectively assessed	238	31	5,383	1,089	6,741
Balance at 31 December 2018	**238**	**31**	**5,383**	**1,089**	**6,741**

9. Loans to Customers (continued)

ECL (continued)

Gold – pawn loans at amortised cost, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**65,670**	**431**	**1,839**	**-**	**67,940**
New financial asset originated or purchased	80,944	-	96	-	81,040
Transfer to Stage 1	4,300	(1,855)	(2,445)	-	-
Transfer to Stage 2	(3,396)	3,694	(298)	-	-
Transfer to Stage 3	(8,800)	(1,641)	10,441	-	-
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(63,239)	(92)	(4,553)	-	(67,884)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Currency translation differences	-	-	-	-	-
Net other changes	4	4	155	-	163
Balance at 31 December 2018	**75,483**	**541**	**4,747**	**-**	**80,771**
Individually assessed	-	-	-	-	-
Collectively assessed	75,483	541	4,747	-	80,771
Balance at 31 December 2018	**75,483**	**541**	**4,747**	**-**	**80,771**

Gold – pawn loans at amortised cost, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**-**	**-**	**34**	**-**	**34**
New financial asset originated or purchased	76	-	-	-	76
Transfer to Stage 1	22	-	(22)	-	-
Transfer to Stage 2	-	10	(10)	-	-
Transfer to Stage 3	(76)	-	76	-	-
Impact on ECL of exposures transferred between stages during the year	(22)	(10)	77	-	45
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(3)	(1)	(220)	-	(224)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(609)	-	(609)
Recoveries of amounts previously written off	-	-	113	-	113
Unwind of discount	-	-	8	-	8
Currency translation differences	-	-	-	-	-
Net other measurement of ECL	14	1	836	-	851
Balance at 31 December 2018	**11**	**-**	**283**	**-**	**294**
Individually assessed	-	-	-	-	-
Collectively assessed	11	-	283	-	294
Balance at 31 December 2018	**11**	**-**	**283**	**-**	**294**

9. Loans to Customers (continued)

ECL (continued)

	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**

The contractual amounts outstanding on loans to customers that have been written off during the reporting period, but are still subject to enforcement activity was GEL 67,001 (2017: GEL 70,904, 2016: GEL 45,258).

9. Loans to Customers (continued)

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, third party corporate guarantees and personal guarantees of shareholders.

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 expected credit loss / impairment of loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion or to hold them for capital appreciation or earning rentals, as appropriate in each case. 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 the discounted value of collateral, the ECL for credit-impaired loans would be as follows::

- For commercial loans: GEL 249,514 as at 31 December 2018;
- For consumer loans: GEL 86,622 as at 31 December 2018;
- For Micro and SME: GEL 107,980 as at 31 December 2018;
- For Residential mortgage loans: GEL 75,073 as at 31 December 2018;
- Gold – pawn loans: GEL 283 as at 31 December 2018.

Without taking into account the discounted value of collateral, the allowance for expected credit loss / impairment of loans would be GEL 263,482 higher as at 31 December 2018 (2017: GEL 253,818 higher, 2016: GEL 322,880 higher).

Concentration of loans to customers

As at 31 December 2018, the concentration of loans granted by the Group to the ten largest third party borrowers comprised GEL 788,216 accounting for 8% of the gross loan portfolio of the Group (2017: GEL 671,120 and 9% respectively, 2016: GEL 580,343 and 9% respectively). An allowance of GEL 44,079 (2017: GEL 41,207, 2016: GEL 17,203) was established against these loans.

As at 31 December 2018, the concentration of loans granted by the Group to the ten largest third party group of borrowers comprised GEL 1,067,718 accounting for 11% of the gross loan portfolio of the Group (2017: GEL 860,946 and 11% respectively, 2016: GEL 965,964 and 15% respectively). An allowance of GEL 42,108 (2017: GEL 73,269, 2016: GEL 35,049) was established against these loans.

9. Loans to Customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2018, 31 December 2017 and 31 December 2016, loans were principally issued within Georgia, and their distribution by industry sector was as follows:

	2018	*2017*	*2016*
Individuals	5,509,279	4,297,115	3,336,523
Trade	1,023,776	808,335	807,020
Manufacturing	937,454	699,574	646,228
Real estate	436,450	432,352	423,124
Construction	366,009	368,509	304,890
Hospitality	301,415	283,527	233,891
Transport & communication	132,588	114,926	166,288
Service	128,535	192,202	168,455
Mining and quarrying	127,835	104,799	114,115
Electricity, gas and water supply	76,574	84,727	34,835
Financial intermediation	61,866	51,597	139,092
Other	329,364	282,455	254,581
Loans to customers, gross	**9,431,145**	**7,720,118**	**6,629,042**
Less – Allowance for expected credit loss / impairment loss	(310,264)	(274,540)	(249,077)
Loans to customers, net	**9,120,881**	**7,445,578**	**6,379,965**

Loans have been extended to the following types of customers:

	2018	*2017*	*2016*
Individuals	5,509,279	4,297,115	3,336,523
Private companies	3,919,089	3,423,003	3,270,898
State-owned entities	2,777	-	21,621
Loans to customers, gross	**9,431,145**	**7,720,118**	**6,629,042**
Less – Allowance for expected credit loss / impairment loss	(310,264)	(274,540)	(249,077)
Loans to customers, net	**9,120,881**	**7,445,578**	**6,379,965**

10. Finance Lease Receivables

	2018	*2017*	*2016*
Minimum lease payments receivable	155,043	83,008	17,794
Less – Unearned finance lease income	(44,956)	(15,322)	(3,199)
	110,087	**67,686**	**14,595**
Less – Allowance for expected credit loss / impairment loss	(1,648)	(2,380)	(1,499)
Finance lease receivables, net	**108,439**	**65,306**	**13,096**

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 2018, the concentration of investment in the five largest lease receivables comprised GEL 9,803 or 9% of total finance lease receivables (2017: GEL 4,403 or 7%, 2016: GEL 5,773 or 40%) and finance income received from them for the year ended 31 December 2018 comprised GEL 1,185 or 7% of total finance income from lease (2017: GEL 755 or 8%, 2016: GEL 866 or 30%).

Future minimum lease payments to be received after 31 December 2018, 31 December 2017 and 31 December 2016 are as follows:

	2018	*2017*	*2016*
Within 1 year	62,475	43,782	8,075
From 1 to 5 years	89,781	34,224	9,719
More than 5 years	2,787	5,002	-
Minimum lease payment receivables	**155,043**	**83,008**	**17,794**

10. Finance Lease Receivables (continued)

Movements of the allowance for expected credit loss / impairment of finance lease receivables are as follows:

Finance lease receivables, gross:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**60,306**	**6,005**	**1,375**	**-**	**67,686**
New financial asset originated or purchased	110,810	-	-	-	110,810
Transfer to Stage 1	15,056	(15,044)	(12)	-	-
Transfer to Stage 2	(27,189)	27,420	(231)	-	-
Transfer to Stage 3	(509)	(7,794)	8,303	-	-
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(41,006)	(2,859)	(462)	-	(44,327)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(5,491)	-	(5,491)
Recoveries of amounts previously written off	-	-	-	-	-
Currency translation differences	(580)	(113)	(38)	-	(731)
Net other changes	(15,938)	(1,809)	(113)	-	(17,860)
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**-**	**110,087**
Individually assessed	-	-	1,140	-	1,140
Collectively assessed	100,950	5,806	2,191	-	108,947
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**-**	**110,087**

Finance lease receivables, ECL:	*As at 31 December 2018*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Balance at 1 January 2018	**424**	**894**	**970**	**-**	**2,288**
New financial asset originated or purchased	781	-	-	-	781
Transfer to Stage 1	692	(688)	(4)	-	-
Transfer to Stage 2	(340)	426	(86)	-	-
Transfer to Stage 3	(220)	(549)	769	-	-
Impact on ECL of exposures transferred between stages during the year	(218)	228	352	-	362
Assets derecognized (excluding write-offs)	-	-	-	-	-
Assets repaid	(659)	(170)	(318)	-	(1,147)
Impact of modifications	-	-	-	-	-
Write-offs	-	-	(756)	-	(756)
Recoveries of amounts previously written off	-	-	-	-	-
Unwind of discount	-	-	47	-	47
Currency translation differences	(16)	(43)	(36)	-	(95)
Net other measurement of ECL	35	(39)	172	-	168
Balance at 31 December 2018	**479**	**59**	**1,110**	**-**	**1,648**
Individually assessed	-	-	518	-	518
Collectively assessed	479	59	592	-	1,130
Balance at 31 December 2018	**479**	**59**	**1,110**	**-**	**1,648**

10. Finance Lease Receivables (continued)

Finance Lease Receivables (continued)

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

11. Investment Properties

	2018	*2017*	*2016*
At 1 January	**202,534**	**152,596**	**135,453**
Additions*	71,785	69,330	25,734
Disposals	(74,278)	(11,067)	(4,455)
Net (losses) gains from revaluation of investment property	(994)	7,336	(1,221)
Transfers (to) from property and equipment, other assets and assets held for sale**	(43,864)	(15,939)	(3,225)
Currency translation differences	-	278	310
At 31 December	**155,183**	**202,534**	**152,596**

**** The additions of 2018, 2017 and 2016 comprise foreclosed properties, no cash transactions were involved.***

***** Comprised of GEL 17,301 transfer from property and equipment (2017: transfers to property and equipment GEL 4,449 and 2016: transfers to property and equipment GEL 351 respectively), Nil transfer to other assets - inventories (2017: Nil transfer to assets – inventories and 2016: transfer to other assets – inventories GEL1,336) and GEL 6,478 transfer to finance lease receivables (2017: transfer to finance lease receivable GEL 11,490 and 2016: transfer to finance lease receivable GEL 1,538). In addition, in 2018 the Group identified certain investment properties in the amount of GEL 54,687 which met assets held for sale criteria and transferred these assets to respective category.***

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 2018 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.

12. Property and Equipment and Intangible Assets

The movements in property and equipment during the year ended 31 December 2018 were as follows:

	Office buildings & service centers	Furniture & fixtures	Computers and equipment	Motor vehicles	Leasehold improve-ments	Assets under construction	Total
Cost							
31 December 2017	**199,296**	**197,869**	**75,069**	**7,443**	**18,268**	**7,877**	**505,822**
Additions	270	24,084	14,718	1,002	240	15,876	56,190
Disposals	(1,679)	(3,065)	(740)	(2,632)	(859)	-	(8,975)
Transfers	11,200	(933)	6	-	6,651	(16,924)	-
Transfers to investment properties	(14,471)	-	-	-	-	(3,741)	(18,212)
Transfers (to) from other assets	-	(12,874)	(2,201)	(1,101)	-	43	(16,133)
Revaluation	2,227	-	-	-	-	-	2,227
Currency translation differences	(870)	(109)	(440)	(17)	(30)	(20)	(1,486)
31 December 2018	**195,973**	**204,972**	**86,412**	**4,695**	**24,270**	**3,111**	**519,433**
Accumulated impairment							
31 December 2017	**2,472**	**38**	**83**	**7**	**-**	**-**	**2,600**
Currency translation differences	(55)	(6)	4	-	-	-	(57)
31 December 2018	**2,417**	**32**	**87**	**7**	**-**	**-**	**2,543**
Accumulated depreciation							
31 December 2017	**20,263**	**117,269**	**50,045**	**4,155**	**6,016**	**-**	**197,748**
Depreciation charge	2,078	14,888	8,581	896	5,098	-	31,541
Currency translation differences	(296)	11	(50)	(1)	(24)	-	(360)
Transfers	-	(5)	5	-	-	-	-
Transfers to investment properties	(911)	-	-	-	-	-	(911)
Transfers (to) from other assets	-	(14,760)	(1,048)	-	-	-	(15,808)
Disposals	(1,237)	(2,390)	(289)	(2,620)	(801)	-	(7,337)
31 December 2018	**19,897**	**115,013**	**57,244**	**2,430**	**10,289**	**-**	**204,873**
Net book value:							
31 December 2017	**176,561**	**80,562**	**24,941**	**3,281**	**12,252**	**7,877**	**305,474**
31 December 2018	**173,659**	**89,927**	**29,081**	**2,258**	**13,981**	**3,111**	**312,017**

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

	Office buildings & service centers	Furniture & fixtures	Computers and equipment	Motor vehicles	Leasehold improve-ments	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	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 (to) from 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
Currency translation differences	(325)	-	(33)	-	(5)	-	(363)
Transfers to investment properties	(53)	-	-	-	-	-	(53)
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**

12. Property and Equipment and Intangible Assets (continued)

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

	Office buildings & service centers	*Furniture & fixtures*	*Computers and equipment*	*Motor vehicles*	*Leasehold improve-ments*	*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 (to) from 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 (to) from 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**

Within the regular cycle of the useful life review for its intangible assets, the Group has changed the estimates regarding the remaining useful life of certain assets. The change in the estimates resulted from the updated strategy in relation to using these assets in the future. The useful life of these assets was increased on average from 10 to 15. The change in accounting estimate was applied from the second half of the year on prospective basis resulting in decrease of amortization expense by GEL 621.

12. Property and Equipment and Intangible Assets (continued)

The movements in Intangible Assets were as follows:

	Software and License	*Other*	*Total*
Cost			
31 December 2017	**85,311**	**3,259**	**88,570**
Additions	17,499	23,134	40,633
Disposals	(112)	-	(112)
Write-offs	(14,419)	(138)	(14,557)
Currency translation differences	(115)	-	(115)
31 December 2018	**88,164**	**26,255**	**114,419**
Accumulated amortisation			
31 December 2017	**37,255**	**367**	**37,622**
Amortization charge	8,912	381	9,293
Disposals	(107)	-	(107)
Write-offs	(8,873)	(58)	(8,931)
Currency translation differences	(26)	(1)	(27)
31 December 2018	**37,161**	**689**	**37,850**
Net book value:			
31 December 2017	**48,056**	**2,892**	**50,948**
31 December 2018	**51,003**	**25,566**	**76,569**

	Software and License	*Other*	*Total*
Cost			
31 December 2016	**56,933**	**9,157**	**66,090**
Additions	21,726	842	22,568
Disposals	(155)	(3)	(158)
Transfers	6,737	(6,737)	-
Business combination	111	-	111
Currency translation differences	(41)	-	(41)
31 December 2017	**85,311**	**3,259**	**88,570**
Accumulated amortisation			
31 December 2016	**28,432**	**1,844**	**30,276**
Amortization charge	6,923	585	7,508
Disposals	(160)	-	(160)
Transfers	2,062	(2,062)	-
Currency translation differences	(2)	-	(2)
31 December 2017	**37,255**	**367**	**37,622**
Net book value:			
31 December 2016	**28,501**	**7,313**	**35,814**
31 December 2017	**48,056**	**2,892**	**50,948**

12. Property and Equipment and Intangible Assets (continued)

	Software and License	*Other*	*Total*
Cost			
31 December 2015	**47,950**	**7,281**	**55,231**
Additions	8,949	1,876	10,825
Disposals	(11)	-	(11)
Currency translation differences	45	-	45
31 December 2016	**56,933**	**9,157**	**66,090**
Accumulated impairment			
31 December 2015	**(7)**	**-**	**(7)**
Currency translation differences	7	-	7
31 December 2016	**-**	**-**	**-**
Accumulated amortisation			
31 December 2015	**23,477**	**1,092**	**24,569**
Amortization charge	4,978	752	5,730
Disposals	(56)	-	(56)
Currency translation differences	33	-	33
31 December 2016	**28,432**	**1,844**	**30,276**
Net book value:			
31 December 2015	**24,480**	**6,189**	**30,669**
31 December 2016	**28,501**	**7,313**	**35,814**

13. Goodwill

Movements in goodwill during the years ended 31 December 2018, 31 December 2017 and 31 December 2016, were as follows:

	2018	*2017*	*2016*
Cost			
1 January	**57,209**	**57,209**	**57,209**
At 31 December	**57,209**	**57,209**	**57,209**
Accumulated impairment			
1 January	**23,756**	**23,756**	**23,756**
At 31 December	**23,756**	**23,756**	**23,756**
Net book value:			
1 January	**33,453**	**33,453**	**33,453**
At 31 December	**33,453**	**33,453**	**33,453**

13. Goodwill (continued)

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:

	2018	*2017*	*2016*
Retail banking	23,488	23,488	23,488
Corporate banking	9,965	9,965	9,965
Total	**33,453**	**33,453**	**33,453**

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 from a one to 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 CGU.

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

	Corporate Banking			*Retail Banking*		
	2018, %	*2017, %*	*2016, %*	*2018, %*	*2017, %*	*2016, %*
Discount rate	4.7%	4.5%	5.3%	6.2%	6.1%	6.9%

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 ("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 reasonable 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 2018. Possible change was taken as +/-1% in discount rate and growth rate.

14. Taxation

The corporate income tax credit (expense) comprises:

	2018	2017	2016
Current income expense	(37,896)	(38,024)	(18,159)
Deferred income tax credit (expense)	(18,683)	10,184	45,477
Income tax (expense) credit	**(56,579)**	**(27,840)**	**27,318**

Deferred tax related to items charged or credited to other comprehensive income during the years ended 31 December 2018, 2017 and 2016 was as follows:

	2018	2017	2016
Currency translation differences	-	(578)	(4,996)
Net results on investment securities	(265)	27	(23)
Revaluation of buildings	-	(781)	-
Income tax expense in other comprehensive income	**(265)**	**(1,332)**	**(5,019)**

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% (2017: from 15% to 25%, 2016: from 15% to 25%).

On 12 June 2018, an amendment to the current corporate taxation model applicable to financial institutions, including banks and insurance businesses became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019 as previously enacted in 2016. 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. As at 30 June 2018, deferred tax assets and liabilities balances have been re-measured, in line with the new date for the change to be implemented. The Group has calculated the portion of deferred taxes that it expects to utilise before 1 January 2023 for financial businesses and has recognised the respective portion of deferred tax assets and liabilities. During the transitional period the Group will only continue to recognize the portion of deferred tax assets and liabilities arising on items charged or credited to income statement during the same period, which it expects to utilize before 1 January 2023.

The effective income tax rate differs from the statutory income tax rates. As at 31 December 2018, 31 December 2017 and 31 December 2016 a reconciliation of the income tax expense based on statutory rates with the actual expense is as follows:

	2018	2017	2016
Profit before income tax (expense) benefit	**400,107**	**366,747**	**261,776**
Average tax rate	15%	15%	15%
Theoretical income tax expense at average tax rate	**(60,016)**	**(55,012)**	**(39,266)**
Tax at the domestic rates applicable to profits in each country	(788)	(1,273)	213
Non-taxable income	37,670	24,150	12,767
Correction of prior year declarations	-	4,645	2,726
Effects from changes in tax legislation	(30,275)	-	52,495
Non-deductible expenses	(4,424)	(350)	(1,605)
Other	1,254	-	(12)
Income tax (expense) benefit	**(56,579)**	**(27,840)**	**27,318**

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 nonexistent 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.

14. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2018, 31 December 2017 and 31 December 2016 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*			
	2015	***In the income statement***	***In other comprehensive income***	***2016***	***In the income statement***	***IFRS 15 adoption***	***In other comprehensive income***	***2017***	***In the income statement***	***IFRS 9 adoption***	***In other comprehensive income***	***2018***
Tax effect of deductible temporary differences:												
Amounts due to credit institutions and other borrowings	482	(482)	-	-	-	-	-	-	26	77	-	103
Investment properties	-	431	59	490	(284)	-	(18)	188	17	-	-	205
Allowances for impairment and provisions for other losses	4,866	1,602	23	6,491	1,292	-	(7)	7,776	(7,159)	-	-	617
Tax losses carried forward	12,123	(3,886)	(8,237)	-	-	-	-	-	8	10	-	18
Property and equipment	-	188	632	820	81	-	(179)	722	1,255	-	-	1,977
Other assets and liabilities	578	923	695	2,196	1,824	-	(214)	3,806	3,820	(87)	-	7,539
Deferred tax assets	**18,049**	**(1,224)**	**(6,828)**	**9,997**	**2,913**	**-**	**(418)**	**12,492**	**(2,033)**	**-**	**-**	**10,459**
Tax effect of taxable temporary differences:												
Amounts due to credit institutions and other borrowings	-	1,230	-	1,230	(470)	-	-	760	1,825	-	-	2,585
Debt securities issued	-	-	-	-	-	-	-	-	2,722	-	-	2,722
Cash and cash equivalents	-	-	-	-	-	-	-	-	2,669	-	-	2,669
Investment securities	-	-	-	-	-	-	-	-	(26)	83	265	322
Loans to customers	28,956	(11,210)	720	18,466	(4,423)	-	(262)	13,781	3,463	(1,973)	-	15,271
Property and equipment	34,196	(26,681)	(1,098)	6,417	(2,668)	-	1,203	4,952	5,468	-	-	10,420
Investment properties	6,511	(4,966)	(1,545)	-	-	-	-	-	584	-	-	584
Intangible assets	3,763	(3,846)	102	19	(2)	-	(1)	16	(4)	-	-	12
Other assets and liabilities	7,056	(1,228)	12	5,840	292	(1,911)	(26)	4,195	(51)	(239)	-	3,905
Deferred tax liabilities	**80,482**	**(46,701)**	**(1,809)**	**31,972**	**(7,271)**	**(1,911)**	**914**	**23,704**	**16,650**	**(2,129)**	**265**	**38,490**
Net deferred tax liabilities	**(62,433)**	**45,477**	**(5,019)**	**(21,975)**	**10,184**	**1,911**	**(1,332)**	**(11,212)**	**(18,683)**	**2,129**	**(265)**	**(28,031)**

15. Other Assets and Other Liabilities

Other assets comprise:

	2018	*2017*	*2016*
Derivative financial assets	35,557	13,484	2,610
Accounts receivable	19,702	1,803	902
Other receivables	9,048	-	-
Assets purchased for finance lease purposes	13,783	10,477	-
Receivables from money transfers	8,866	12,890	8,915
Inventory	8,787	16,328	5,798
Receivables from documentary operations	6,607	7,790	1,827
Foreclosed assets	4,374	52,095	50,821
Operating tax assets	4,255	4,377	3,856
Operating lease receivables	4,057	1,843	1,774
Receivables from sale of assets	849	825	482
Settlements on operations	167	929	1,101
Other	22,952	16,349	22,459
	139,004	**139,190**	**100,545**
Less – Allowance for impairment of other assets	(4,431)	(21,333)	(12,265)
Other assets	**134,573**	**117,857**	**88,280**

Other liabilities comprise:

	2018	*2017*	*2016*
Deferred income and other accruals	24,273	19,176	455
Accruals for employee compensation	20,457	18,482	18,004
Derivative financial liabilities	11,569	3,948	15,689
Creditors	10,038	18,974	6,664
Advances received	8,279	2,761	364
Other taxes payable	7,728	7,346	3,657
Dividends payable	1,304	1,064	1,276
Accounts payable	323	98	12
Other	18,242	8,308	8,982
Other liabilities	**102,213**	**80,157**	**55,103**

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.

	2018		
	Notional amount	*Fair value*	
		Asset	*Liability*
Foreign exchange contracts			
Forwards and Swaps – domestic	721,906	3,110	981
Forwards and Swaps – foreign	1,920,039	19,811	4,228
Interest rate contracts			
Forwards and Swaps – foreign	1,109,990	12,636	6,360
Total derivative assets / liabilities	**3,751,935**	**35,557**	**11,569**

15. Other Assets and Other Liabilities (continued)

	2017			*2016*		
	Notional amount	***Fair value Asset***	***Fair value Liability***	***Notional amount***	***Fair value Asset***	***Fair value Liability***
Foreign exchange contracts						
Forwards and Swaps – domestic	370,523	3,039	1,958	347,458	2,098	8,012
Forwards and Swaps – foreign	227,585	1,576	534	302,679	512	7,043
Interest rate contracts						
Forwards and Swaps – foreign	777,660	7,368	-	794,040	-	634
Options – foreign	10,183	1,501	1,456	-	-	-
Total derivative assets / liabilities	**1,385,951**	**13,484**	**3,948**	**1,444,177**	**2,610**	**15,689**

16. Amounts due to customers

The amounts due to customers include the following:

	2018	*2017*	*2016*
Time deposits	4,064,347	3,352,379	2,844,948
Current accounts	4,132,204	3,697,021	2,854,336
Promissory notes issued	-	74,466	74,228
Amounts due to customers	**8,196,551**	**7,123,866**	**5,773,512**
Held as security against letters of credit and guarantees (Note19)	**125,393**	**98,399**	**96,692**

As at 31 December 2017 and 31 December 2016, 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.

At 31 December 2018, amounts due to customers of GEL 966,873 (12%) were due to the 10 largest customers (2017: GEL 1,066,616 (15%), 2016: GEL 635,303 (11%).

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

	2018	*2017*	*2016*
Individuals	4,827,522	3,866,404	3,123,534
Private enterprises	2,828,809	2,793,175	2,512,506
State and state-owned entities	540,220	464,287	137,472
Amounts due to customers	**8,196,551**	**7,123,866**	**5,773,512**

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

	2018	*2017*	*2016*
Individuals	4,827,522	3,866,404	3,123,534
Construction	572,628	279,623	291,440
Trade	536,833	593,752	435,836
Government services	508,410	438,492	102,530
Financial intermediation	471,488	659,464	522,046
Transport & communication	342,745	257,818	213,301
Service	304,190	306,061	381,837
Manufacturing	178,619	225,336	208,519
Real estate	101,020	105,030	127,163
Electricity, gas and water supply	95,987	109,780	113,572
Health and social work	50,831	70,535	46,106
Hospitality	40,216	44,241	22,248
Other	166,062	167,330	185,380
Amounts due to customers	**8,196,551**	**7,123,866**	**5,773,512**

17. Amounts Owed to Credit Institutions and Other Borrowings

Amounts due to credit institutions comprise:

	2018	*2017*	*2016*
Short-term loans from the National Bank of Georgia	1,118,957	793,528	1,085,000
Borrowings from international credit institutions	895,994	1,087,897	1,072,033
Time deposits and inter-bank loans	196,523	261,173	150,582
Correspondent accounts	118,693	204,512	329,609
Other borrowings*	-	386,426	394,224
Subtotal	**2,330,167**	**2,733,536**	**3,031,448**
Non-convertible subordinated debt	419,181	428,673	436,905
Amounts due to credit institutions and other borrowings	**2,749,348**	**3,162,209**	**3,468,353**

** Other borrowings represent USD-denominated borrowing from JSC BGEO originally maturing in 2023, which has been covered in advance in March 2018.*

During the year ended 31 December 2018, the Group paid up to 6.10% on USD borrowings from international credit institutions (2017: up to 6.27%, 2016: up to 5.79%). During the year ended 31 December 2018, the Group paid up to 10.00% on USD subordinated debt (2017: up to 8.92% and 2016: up to 8.44%).

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 2018, 31 December 2017 and 31 December 2016 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	-
Carrying amount at 31 December 2018	-

18. Debt Securities Issued

Debt securities issued comprise:

	2018	*2017*	*2016*
Eurobonds and notes issued	1,350,921	454,953	-
Certificates of deposit	323,171	268,552	177,271
Georgian local bonds	36,940	26,150	-
Debt securities issued	**1,711,032**	**749,655**	**177,271**

19. Commitments and Contingencies

Legal

Sai-invest

As at 31 December 2018, the Group was engaged in a litigation proceeding with Sai-Invest LLC in relation to a deposit pledge in the amount of EUR 7 million used to reduce the outstanding loan of LTD Sport Invest towards JSC Bank of Georgia. The management is of the opinion that the probability of incurring material losses on this claim is low, and accordingly no provision has been made in these consolidated financial statements.

Rustavi Azoti

As at 31 December 2018, the Bank was engaged in litigation proceedings in Tbilisi City Court with East-West United Bank S.A., Agrochim S.A. and Systema Holding Limited (claimants) in relation to foreclosure on security (movable and immovable property and intangible assets) through auction on a defaulted loan of Rustavi Azoti LLC. Claimants request reinstatement of the title to the property owned by Rustavi Azoti LLC and compensation of damages in the amount of around USD 93.6m. No provision has been made as the management believes that the claim is groundless and it is extremely unlikely that any significant loss will eventuate from this claim.

In the ordinary course of business, the Group and the Bank are 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 or the Bank.

Financial commitments and contingencies

As at 31 December 2018, 31 December 2017 and 31 December 2016 the Group's financial commitments and contingencies comprised the following:

	2018	*2017*	*2016*
Credit-related commitments			
Guarantees issued	1,015,567	630,413	456,996
Undrawn loan facilities	278,253	261,397	231,704
Letters of credit	42,009	43,423	58,561
	1,335,829	**935,233**	**747,261**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(125,393)	(98,399)	(96,692)
Less – Provisions	(4,582)	(2,815)	(3,380)
Operating lease commitments			
Not later than 1 year	29,377	20,115	19,200
Later than 1 year but not later than 5 years	74,331	47,558	45,405
Later than 5 years	28,754	18,486	18,713
	132,462	**86,159**	**83,318**
Capital expenditure commitments	**6,616**	**2,538**	**2,394**

20. Equity

Share capital

As at 31 December 2018, 2017 and 2016, authorized common capital comprised 43,308,125. As at 31 December 2018, issued and fully paid share capital comprised 27,993,660 common shares (2017: 27,821,150 2016: 27,821,150). Each share has a nominal value of one (1) Georgian Lari. Shares issued and outstanding as at 31 December 2018 are described below:

	Number of shares Ordinary	*Amount of shares Ordinary*
31 December 2015	**27,821,150**	**27,821**
31 December 2016	**27,821,150**	**27,821**
31 December 2017	**27,821,150**	**27,821**
Issue of share capital	172,510	173
31 December 2018	**27,993,660**	**27,994**

Treasury shares

The number of treasury shares held by the Group as at 31 December 2018 comprised 8,995 (31 December 2017: 8,995, 31 December 2016: 8,995), with nominal amount of GEL 9 (31 December 2017: GEL 9, 31 December 2016: GEL 9).

Dividends

Shareholders are entitled to dividends in Georgian Lari.

On 14 June 2018, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2017 of Georgian Lari 4.31 per share. Payment of the total GEL 120,000 final dividends was received by shareholders on 2 July 2018.

On 29 November 2016, the annual general meeting of shareholders' of JSC Bank of Georgia declared an interim dividend for 2016 of Georgian Lari 3.59 per share. Payment of the total GEL 100,000 final 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 2015 of Georgian Lari 3.48 per share. Payment of the total GEL 100,597 final dividends was received by shareholders on 15 March 2016.

Earnings per share

	2018	*2017*	*2016*
Basic and diluted earnings per share			
Profit for the year attributable to ordinary shareholders of the Group	343,528	338,761	287,945
Weighted average number of ordinary shares outstanding during the year	27,826,807	27,812,155	27,817,934
Earnings per share	12.3452	12.1803	10.3511

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 2018, 31 December 2017 and 31 December 2016 are presented in the statements of other comprehensive income.

21. Net Fee and Commission Income

	2018	*2017*	*2016*
Settlements operations	183,184	151,630	127,633
Guarantees and letters of credit	18,211	17,879	19,517
Cash operations	15,585	15,735	14,682
Currency conversion operations	1,691	447	585
Other	4,649	5,309	5,969
Fee and commission income	**223,320**	**191,000**	**168,386**
Settlements operations	(84,224)	(63,813)	(47,743)
Cash operations	(5,133)	(5,157)	(5,954)
Guarantees and letters of credit	(1,629)	(2,177)	(2,865)
Currency conversion operations	(301)	(27)	(20)
Insurance brokerage service fees	(261)	(211)	(227)
Other	(2,248)	(3,345)	(1,687)
Fee and commission expense	**(93,796)**	**(74,730)**	**(58,496)**
Net fee and commission income	**129,524**	**116,270**	**109,890**

Revenue from customers

The group has recognised the following amounts relating to revenue from contracts with customers in the income statement:

	2018	**2017**
Revenue from contracts with customers	238,048	193,160

Contract assets and liabilities

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

	31-Dec-18	**31-Dec-17**
Accruals and deferred income	23,837	17,730

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 6,873 revenue in the current reporting period (2017: GEL 5,531) 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 2019	**In the year ending 31 December 2020**	**In the year ending 31 December 2021**	**In 3 to 5 years**	**In 5 to 10 years**	**Total**
Revenue expected to be recognized on active contracts with customers	21,677	9,427	5,533	2,169	152	**38,958**

	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 with customers	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.

22. Net Real Estate Revenue

	2018	2017	2016
Income from operating lease	5,390	3,361	6,045
Gain from sale of real estate properties	13,836	4,630	2,929
Real estate revenue	**19,226**	**7,991**	**8,974**
Loss on real estate property sale	(14,088)	(2,312)	(343)
Net real estate revenue	**5,138**	**5,679**	**8,631**

23. Salaries and Other Employee Benefits, and General and Administrative Expense

Salaries and other employee benefits

	2018	2017	2016
Salaries and bonuses	(197,697)	(183,016)	(150,710)
Social security costs	(4,528)	(3,869)	(3,050)
Salaries and other employee benefits	**(202,225)**	**(186,885)**	**(153,760)**

Salaries and bonuses include GEL 48,338, GEL 50,393 and GEL 39,696 of the Equity Compensation Plan costs for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively, associated with the existing share-based compensation scheme approved in the Group (Notes 26 and 30).

General and administrative expenses

	2018	2017	2016
Occupancy and rent	(26,643)	(24,195)	(19,458)
Marketing and advertising	(17,166)	(14,575)	(12,652)
Repairs and maintenance	(12,881)	(12,637)	(10,051)
Legal and other professional services	(11,509)	(7,977)	(6,508)
Operating taxes	(7,177)	(6,824)	(5,688)
Personnel training and recruitment	(5,928)	(3,386)	(1,619)
Corporate hospitality and entertainment	(5,830)	(5,239)	(4,873)
Office supplies	(5,729)	(5,596)	(4,355)
Communication	(5,030)	(5,140)	(4,323)
Security	(2,841)	(2,211)	(1,540)
Insurance	(2,369)	(2,757)	(1,904)
Travel expenses	(1,773)	(1,641)	(1,029)
Penalties	(568)	(49)	(17)
Other	(2,703)	(2,780)	(1,517)
General and administrative expenses	**(108,147)**	**(95,007)**	**(75,534)**

Auditors' remuneration

Auditors' remuneration is included within legal and other professional services expenses above and comprises:

	2018	2017	2016
Fees for the audit of the Group's annual financial statements for the year ended 31 December	797	428	423
Expenditures for other assurance services	186	812	242
Expenditures for other professional services	779	-	115
Total fees	**1,762**	**1,240**	**780**

The figures shown in the above table relate to fees paid to EY LLC ("EY") and its associates. Fees paid to other auditors not associated with EY in respect of the audit of the Parent and Group's subsidiaries were GEL 24 (2017: GEL 67, 2016: GEL 92) and in respect of other services of the Group were GEL 49 (2017: GEL 207, 2016: GEL 146).

24. Expected Credit Loss

The table below shows ECL charges on financial instruments for the year recorded in the income statement:

	As at 31 December 2018					
	Stage 1	Stage 2	Stage 3			
	Collective	***Collective***	***Individual***	***Collective***	POCI	***Total***
Cash and cash equivalents	(62)	-	-	-	-	(62)
Amounts due from credit institutions	(141)	-	-	-	-	(141)
Investment securities measured at FVOCI - debt instruments	(1,065)	-	-	-	-	(1,065)
Loans to customers at amortised cost	17,079	4,089	5,165	(170,153)	3,628	(140,192)
Finance lease receivables	(71)	792	(254)	(631)	-	(164)
Accounts receivable	(6)	-	-	-	-	(6)
Financial guarantees	(1,854)	16	291	84	-	(1,463)
Letter of credit to customers	186	15	-	621	-	822
Other financial commitments	(252)	(78)	-	-	-	(330)
For the year ended 31 December 2018	**13,814**	**4,834**	**5,202**	**(170,079)**	**3,628**	**(142,601)**

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 and 31 December 2016:

	2017			*2016*		
	Individual impairment	***Collective impairment***	***Total***	***Individual impairment***	***Collective impairment***	***Total***
	2017	***2017***	***2017***	***2016***	***2016***	***2016***
At 1 January	**171,265**	**77,812**	**249,077**	**138,935**	**59,974**	**198,909**
Charge for the year	58,823	97,735	156,558	74,051	81,315	155,366
Recoveries	10,948	41,844	52,792	7,880	28,364	36,244
Write-offs	(49,554)	(101,705)	(151,259)	(46,994)	(79,141)	(126,135)
Interest accrued on impaired loans to customers	(10,768)	(21,536)	(32,304)	(5,394)	(13,086)	(18,480)
Currency translation differences	(307)	(17)	(324)	2,787	386	3,173
At 31 December	**180,407**	**94,133**	**274,540**	**171,265**	**77,812**	**249,077**

25. Net Non-recurring Items

	2018	***2017***	***2016***
Demerger related expenses*	(34,984)	-	-
Corporate social responsibility expense**	(11,478)	-	-
Loss on early repayment of parent loan	(10,432)	-	-
Termination benefits / sign-up compensation expenses	(4,401)	(868)	(12,643)
Loss from sale of subsidiary	(1,414)	-	-
Loss from full redemption of debt securities issued	-	-	(43,919)
Loss from early repayments of borrowings	-	-	(6,979)
Consulting costs	-	-	(5,258)
Impairment of prepayments	-	-	(2,205)
Impairment of property and equipment, and intangible assets	-	-	(1,403)
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
Other non-recurring income/gain	-	-	516
Other	(13,357)	(2,721)	(3,330)
Net non-recurring items	**(76,066)**	**(3,589)**	**(49,169)**

** Demerger related expenses comprise of: employee compensation expenses in amount of GEL 31,913 including acceleration of share-based compensation of investment business employees, demerger costs recognised in the consolidated income statement in amount of GEL 1,663 and other demerger related expenses in amount of GEL 1,408.*

*** Corporate social responsibility comprise of the one-off project to support the fiber-optic broadband infrastructure development in rural Georgia.*

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 2018, the Group contributed GEL 65,420 (2017: GEL 125,270, 2016: GEL 119,471) as intra-group recharge under share-based compensation schemes described above.

Following the Demerger, Bank of Georgia Group PLC's remuneration committee resolved to amend the contingent share-based compensation of the Management Board members using estimated valuation of the relative share prices of BGEO Group PLC before Demerger and Bank of Georgia Group PLC after the listing.

In February 2018, BGEO's remuneration committee resolved to award 232,548 ordinary shares of BGEO Group PLC to the members of the Management Board and 79,050 ordinary shares of BGEO Group PCC to the Group's 16 executives. Shares awarded are subject to three-year vesting, with continuous employment being the only vesting condition for both awards. The Group considers 14 February 2018 as the grant date. The Group estimates that the fair value of the shares awarded on 14 February 2018 was Georgian Lari 114.56 per share.

In February 2017, BGEO Group PLC's remuneration committee resolved to award 253,950 ordinary shares of BGEO Group PLC to the members of the Management Board and 70,550 ordinary shares of BGEO Group PLC to the Group's 19 executives. Shares awarded to the Management Board and the other 19 executives are subject to two or three-year vesting for Management 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 Group PLC's remuneration committee resolved to award 288,500 ordinary shares of BGEO Group PLC to the members of the Management Board and 52,600 ordinary shares of BGEO Group PLC to the Group's 19 executives. Shares awarded to the Management Board and the other 19 executives are subject to two-year vesting for Management 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 2018 the Management Board members signed new three-year fixed contingent share-based compensation agreements with the total of 82,000 ordinary shares of BGEO Group PLC and 115,000 ordinary shares of BOG Group PLC. The total amount of shares fixed to each executive will be awarded in three equal instalments during the 3 consecutive years starting January 2019, of which each award will be subject to a four-year vesting period. The Group considers 16 February 2018, 23 March 2018 and 10 July 2018 as the grant date for the awards. The Group estimates that the fair value of the shares on 16 February 2018, 23 March 2018 and 10 July 2018 were Georgian Lari 115.03, 122.23 and 60.47, respectively.

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.

The Bank grants share compensation to its non-executive employees. In February 2018, February 2017 and February 2016, the Supervisory Board of the Bank resolved to award 158,960, 131,710 and 91,851 ordinary shares to its certain 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 14 February 2018, 28 February 2017 and 12 February 2016 as the grant dates of these awards, respectively. The Group estimates that the fair values of the shares awarded on 14 February 2018, 28 February 2017and 12 February 2016 were Georgian Lari 114.56, 90.01 and 57.83 per share, respectively.

26. Share-based Payments (continued)

Executives' Equity Compensation Plan (continued)

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 106.38 per share in year ended 31 December 2018 (31 December 2017: Georgian Lari 89.79 per share, 31 December 2016: Georgian Lari 66.60).

The Group's total share-based payment expenses for the year ended 31 December 2018 comprised GEL 82,760 (31 December 2017: GEL 50,393, 31 December 2016: GEL 39,696) and are included in "salaries and other employee benefits", as "salaries and bonuses".

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

	2018	*2017*	*2016*
Total number of equity instruments awarded*	667,558	597,210	657,951
– Among them, to top management and board of directors	*429,548*	*394,950*	*513,500*
Weighted average value at grant date, per share (GEL in full amount)	106.38	89.79	66.60
Value at grant date, total (GEL)	**71,012**	**53,626**	**43,821**
Total expense recognised during the year (GEL)	**(82,760)**	**(50,393)**	**(39,696)**

**** 2018 Expense recognised during the year includes GEL 34,422 recorded in non-recurring expenses.***

27. Risk Management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to 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 assists the Board in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and is responsible for governance around both the internal audit function and external auditor, reporting back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among other operational risks, compliance, IT and Internal Security (including cyber-security) and works closely with the Risk Committee in connection with assessing the effectiveness of the risk management and internal control framework.

Risk Committee
The Risk Committee assists the Board in relation to the oversight of risk. It reviews the Group's risk appetite in line with strategy, identifies and monitors risk exposure and the risk management infrastructure, oversees the implementation of strategy to address risk, and in conjunction with the Audit Committee, assesses the strength and effectiveness of the risk management and internal control framework.

Management Board
The Management Board has overall responsibility for the Bank's asset, liability and risk management activities, policies and procedures. In order to effectively implement the risk management system, the Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within the Bank.

Bank Asset and Liability Management Committee
The Bank's Asset and Liability Management Committee ("ALCO) is the core risk management body that establishes policies and guidelines with respect to capital adequacy, market risks and respective limits, funding liquidity risk and respective limits, interest rate and prepayment risks and respective limits, money market general terms and credit exposure limits, designs and implements respective risk management and stress testing models in practice and regularly monitors compliance with the pre-set risk limits.

Internal Audit
The Internal Audit Department is responsible for the annual audit of the Group's risk management, internal control and corporate governance processes, with the aim of reducing the levels of operational and other risks, auditing the Group's internal control systems and detecting any infringements or errors on the part of the Group's departments and divisions. It examines both the adequacy of and the Group's compliance with those procedures. The Group's Internal Audit Department 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.

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.

27. Risk Management (continued)

Introduction (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, and the head of each business division. The reports include aggregate 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 expected credit loss 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, they 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 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 and notional amounts of guarantees and commitments provided.

There were no material changes in credit risk management practice at the Group as a consequence of IFRS 9 application.

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 and letter of credits which may require that the Group make payments on their behalf. Such payments are collected from customers based on the term of the guarantee and 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 and external credit ratings used in ECL calculations.

For corporate and SME loan portfolios the Group runs an internal rating model in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to borrower, utilising supplemental external information that could affect the borrower's behaviour. 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.

For retail and micro loans, the Group uses external ratings provided by Credit Bureau.

The Group's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks and broker-dealers. For these, where external ratings provided by rating agencies are available the Group credit risk department uses such external ratings. For those where external ratings are not available internal ratings are assigned.

27. Risk Management (continued)

Credit risk (continued)

The table below shows internal and external grades used in ECL calculating.

Internal Rating Description*	Internal Rating Grade	External Rating		
		Credit bureau rating	Moody's	S&P
High grade				
	Aaa	2	A	AAA
	Aa1	2-	B	AA+
	Aa2	3+	C1	AA
	Aa3	3	C2	AA-
	A1	3-	C3	A+
	A2	4+		A
	A3	4		A-
	Baa1	4-		BBB+
	Baa2	5+		BBB
	Baa3	5		BBB-
Standard grade				
	Ba1	5-	D1	BB+
	Ba2	6+	D2	BB
	Ba3	6		BB-
	B1	6-		B+
	B2	7+		B
Low grade				
	B3	7	D3	B-
	Caa1	7-	E1	CCC+
	Caa2	7-	0	CCC
	Caa3	7-	0	CCC-
	Ca	7-		CC
				C

**Grades are not supposed to be linked to each other across the rating categories above.*

27. Risk Management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset in the statement of financial position, based on the Group's credit rating system.

A defaulted financial asset that is past due more than 90 days is assessed as a non performing loan or as determined on individual basis based on other available information regarding financial difficulties of the borrower.

Cash and cash equivalents	*As at 31 December 2018*	
	Stage 1	*Total*
High grade	315,934	315,934
Standard grade	302,981	302,981
Low grade	765	765
Not rated	87,764	87,764
Balance at 31 December 2018	**707,444**	**707,444**

Amounts due from credit institutions	*As at 31 December 2018*	
	Stage 1	*Total*
High grade	29,744	29,744
Standard grade	1,256,325	1,256,325
Low grade	-	-
Not rated	19,861	19,861
Balance at 31 December 2018	**1,305,930**	**1,305,930**

Investment securities measured at FVOCI - debt instruments	*As at 31 December 2018*	
	Stage 1	*Total*
High grade	830,008	830,008
Standard grade	1,028,605	1,028,605
Low grade	6,246	6,246
Not rated	71,531	71,531
Balance at 31 December 2018	**1,936,390**	**1,936,390**

27. Risk Management (continued)

Credit risk (continued)

Commercial loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,327,033	59,862	-	-	1,386,895
Standard grade	362,875	160,192	-	-	523,067
Low grade	102,328	73,296	-	6,050	181,674
Not rated	425,297	34,479	-	-	459,776
Defaulted					
Non-performing	-	-	187,641	-	187,641
Other	-	-	54,778	987	55,765
Balance at 31 December 2018	**2,217,533**	**327,829**	**242,419**	**7,037**	**2,794,818**

Consumer loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	749,583	2,731	-	109	752,423
Standard grade	299,181	4,100	-	-	303,281
Low grade	483,340	93,786	-	194	577,320
Not rated	117,976	529	76	-	118,581
Defaulted					
Non-performing	-	-	38,831	214	39,045
Other	-	-	82,284	3,954	86,238
Balance at 31 December 2018	**1,650,080**	**101,146**	**121,191**	**4,471**	**1,876,888**

Micro and SME loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,024,192	7,449	-	-	1,031,641
Standard grade	347,357	10,016	-	-	357,373
Low grade	240,321	45,920	-	5	286,246
Not rated	302,094	21,926	-	5	324,025
Defaulted					
Non-performing	-	-	80,244	1,979	82,223
Other	-	-	47,461	246	47,707
Balance at 31 December 2018	**1,913,964**	**85,311**	**127,705**	**2,235**	**2,129,215**

Residential mortgage loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	1,691,375	18,777	-	311	1,710,463
Standard grade	290,796	7,038	-	-	297,834
Low grade	319,076	60,994	-	533	380,603
Not rated	49,960	-	-	-	49,960
Defaulted					
Non-performing	-	-	23,239	3,455	26,694
Other	-	-	65,010	18,889	83,899
Balance at 31 December 2018	**2,351,207**	**86,809**	**88,249**	**23,188**	**2,549,453**

Gold – pawn loans at amortised cost	As at 31 December 2018				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
High grade	-	-	-	-	-
Standard grade	-	-	-	-	-
Low grade	-	-	-	-	-
Not rated	75,483	541	-	-	76,024
Defaulted					
Non-performing	-	-	369	-	369
Other	-	-	4,378	-	4,378
Balance at 31 December 2018	**75,483**	**541**	**4,747**	**-**	**80,771**

27. Risk Management (continued)

Credit risk (continued)

Finance lease receivables	As at 31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	19,375	1,375	-	20,750
Standard grade	7,659	213	-	7,872
Low grade	1,914	794	-	2,708
Not rated	72,002	3,424	683	76,109
Defaulted				
Non-performing	-	-	2,410	2,410
Other	-	-	238	238
Balance at 31 December 2018	**100,950**	**5,806**	**3,331**	**110,087**

Accounts receivable	As at 31 December 2018	
	Stage 1	*Total*
Not rated	19,702	19,702
Balance at 31 December 2018	**19,702**	**19,702**

Guarantees issued	As at 31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	165,401	5,697	-	171,098
Standard grade	37,795	5,708	-	43,503
Low grade	17,791	466	-	18,257
Not rated	760,203	8	-	760,211
Defaulted				
Other	-	-	22,498	22,498
Balance at 31 December 2018	**981,190**	**11,879**	**22,498**	**1,015,567**

Letters of credit	As at 31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	31,381	2,553	-	33,934
Standard grade	4,844	-	-	4,844
Low grade	-	2,355	-	2,355
Not rated	876	-	-	876
Balance at 31 December 2018	**37,101**	**4,908**	**-**	**42,009**

Undrawn loan facilities	As at 31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
High grade	185,926	165	-	186,091
Standard grade	22,951	150	-	23,101
Low grade	19,349	3,495	-	22,844
Not rated	44,350	466	61	44,877
Defaulted				
Other	-	-	1,340	1,340
Balance at 31 December 2018	**272,576**	**4,276**	**1,401**	**278,253**

27. Risk Management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position as at 31-December 2017 and 31 December 2016, based on the Group's credit rating system.

		Neither past due nor impaired				
31 December 2017	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	7	1,216,343	-	-	-	1,216,343
Debt investment securities available-for-sale	8	1,613,558	-	-	-	1,613,558
Loans to customers:	9					
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	10	48,069	12,161	2,063	5,393	67,686
Total		**9,511,879**	**459,080**	**89,973**	**556,773**	**10,617,705**

		Neither past due nor impaired				
31 December 2016	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due or individually impaired*	*Total*
Amounts due from credit institutions	7	940,485	-	-	-	940,485
Debt investment securities available-for-sale	8	1,283,607	-	-	-	1,283,607
Loans to customers:	9					
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	10	1,426	7,525	2,337	3,307	14,595
Total		**7,579,144**	**478,177**	**96,704**	**713,704**	**8,867,729**

27. Risk Management (continued)

Credit risk (continued)

Prior to IFRS 9 transition, the credit risk assessment policy for non-past due and individually non-impaired financial assets was 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**

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**

27. Risk Management (continued)

Credit risk (continued)

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

During the year, the Group modified the contractual cash flows on certain loans and advances to customers. All such loans had previously been transferred to at least Stage 2 with a loss allowance measured at an amount equal lifetime expected credit losses.

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Financial assets modified during the period:	Amortized cost before modification	Net loss arising from Modification
Commercial loans	9,529	-
Consumer loans	19,144	(2,065)
Micro and SME loans	21,852	(1,152)
Residential mortgage loans	5,883	(690)
Gold – pawn loans	-	-
	56,408	**(3,907)**

The table below shows the carrying amount for renegotiated financial assets, by class as at 31 December 2017 and 2016:.

	2017	*2016*
Loans to customers:		
Commercial loans	103,365	235,026
Micro and SME loans	47,539	37,003
Residential mortgage loans	44,058	38,757
Consumer loans	39,318	29,828
Finance lease receivables	5,508	836
Total	**239,788**	**341,450**

There were no loans that have previously been modified (when they were in Stage 2 or 3) which are now categorised as Stage 1, with loss allowance measured at an amount equal to 12 months expected losses.

27. Risk Management (continued)

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

	2018			
	Georgia	OECD	CIS and other foreign countries	Total
Assets:				
Cash and cash equivalents	789,187	315,081	116,256	1,220,524
Amounts due from credit institutions	1,258,544	26,982	19,665	1,305,191
Investment securities	1,020,244	779,097	133,212	1,932,553
Loans to customers	8,699,974	2,168	418,739	9,120,881
Finance lease receivables	94,521	-	13,918	108,439
All other assets	746,276	43,937	45,786	835,999
	12,608,746	**1,167,265**	**747,576**	**14,523,587**
Liabilities:				
Amounts due to customers	6,071,067	658,852	1,466,632	8,196,551
Amounts due to credit institutions and other borrowings	1,300,444	1,360,473	88,431	2,749,348
Debt securities issued	36,940	1,635,929	38,163	1,711,032
All other liabilities	120,474	9,715	5,439	135,628
	7,528,925	**3,664,969**	**1,598,665**	**12,792,559**
Net balance sheet position	**5,079,821**	**(2,497,704)**	**(851,089)**	**1,731,028**

	2017				2016			
	Georgia	OECD	CIS and other foreign countries	Total	Georgia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	475,133	929,676	96,845	1,501,654	608,415	812,798	65,957	1,487,170
Amounts due from credit institutions	1,023,145	182,699	10,499	1,216,343	933,638	3,287	3,560	940,485
Investment securities	980,876	559,468	73,415	1,613,759	912,345	286,832	84,725	1,283,902
Loans to customers	7,059,260	-	386,318	7,445,578	6,030,838	-	349,127	6,379,965
Finance lease receivables	52,109	-	13,197	65,306	123	-	12,973	13,096
All other assets	702,272	4,271	71,533	778,076	595,611	4,950	27,753	628,314
	10,292,795	**1,676,114**	**651,807**	**12,620,716**	**9,080,970**	**1,107,867**	**544,095**	**10,732,932**
Liabilities:								
Amounts due to customers	5,356,374	663,234	1,104,258	7,123,866	4,270,165	557,909	945,438	5,773,512
Amounts due to credit institutions and other borrowings	1,455,058	1,631,331	75,820	3,162,209	1,774,115	1,583,393	110,845	3,468,353
Debt securities issued	26,149	694,994	28,512	749,655	-	153,145	24,126	177,271
All other liabilities	98,511	571	3,985	103,067	68,359	7,091	5,202	80,652
	6,936,092	**2,990,130**	**1,212,575**	**11,138,797**	**6,112,639**	**2,301,538**	**1,085,611**	**9,499,788**
Net balance sheet position	**3,356,703**	**(1,314,016)**	**(560,768)**	**1,481,919**	**2,968,331**	**(1,193,671)**	**(541,516)**	**1,233,144**

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 average monthly liquidity ratio is 30%, calculated as average liquid assets during the month (as defined by the NBG) divided by average liabilities for the same month (with certain exceptions established by the NBG). For the year ended 31 December 2018, 31 December 2017 and 31 December 2016 these ratios were as follows:

	2018, %	2017, %	2016, %
Average annual liquidity ratio*	33.3%	39.8%	43.6%
Maximum average monthly liquidity ratio*	36.8%	44.8%	48.5%
Minimum average monthly liquidity ratio*	30.2%	34.4%	37.7%

**Calculated according to the NBG requirements.*

27. Risk Management (continued)

Liquidity risk and funding management (continued)

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.

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 2018 was 120.1% (2017: 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 2018**	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to customers	3,126,421	4,388,790	765,904	79,108	8,360,223
Amounts due to credit institutions and other borrowings	1,383,079	244,340	1,153,815	302,379	3,083,613
Debt securities issued	54,953	354,362	1,652,340	-	2,061,655
Derivative financial liabilities	10,574	995	-	-	11,569
Total undiscounted financial liabilities	**4,575,027**	**4,988,487**	**3,572,059**	**381,487**	**13,517,060**

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**

27. Risk Management (continued)

Liquidity risk and funding management (continued)

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**

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 2018	423,886	337,522	616,522	96,977	1,474,907
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

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 amounts 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 16).

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 2018. 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 years ended 31 December 2018, 2017 and 2016 sensitivity analysis did not reveal any significant potential effect on the Group's equity.

Currency	*Increase in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of other comprehensive income 2018*
GEL	6	251	1,019
EUR	(1)	(50)	(2)
USD	6	121	63

Currency	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of other comprehensive income 2018*
GEL	6	(251)	(1,019)
EUR	(1)	50	2
USD	6	(121)	(63)

27. Risk Management (continued)

Market risk (continued)

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 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 2018 on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Georgian Lari, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The reasonably possible movement of the currency rate against the Georgian Lari is calculated as a standard deviation of daily changes in exchange rates over the twelve months. 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 2018, year ended 31 December 2017 and year ended 31 December 2016, 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*
	2018		*2017*		*2016*	
EUR	9.9%	(324)	12.0%	(2,487)	11.6%	(3,336)
USD	7.1%	10,877	8.9%	5,758	9.3%	3,507

27. Risk Management (continued)

Market risk (continued)

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 or whatever 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 2018, 31 December 2017 and 31 December 2016 is as follows:

	Effect on net interest income
2018	(73,870)
2017	(46,527)
2016	(27,487)

Operational risk

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

Operating environment

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

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

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 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets measured at fair value				
Total investment properties	-	-	155,183	155,183
Land	-	-	*15,094*	*15,094*
Residential properties	-	-	75,171	75,171
Non-residential properties	-	-	64,918	*64,918*
Investment securities	-	1,932,158	395	1,932,553
Other assets – derivative financial assets	-	35,557	-	35,557
Assets for which fair values are disclosed				
Cash and cash equivalents	-	1,220,524	-	1,220,524
Amounts due from credit institutions	-	1,305,191	-	1,305,191
Loans to customers	-	-	9,091,370	9,091,370
Finance lease receivables	-	-	108,439	108,439
Liabilities measured at fair value:				
Other liabilities – derivative financial liabilities	-	11,569	-	11,569
Liabilities for which fair values are disclosed				
Amounts due to customers	-	8,192,491	-	8,192,491
Amounts due to credit institutions and other borrowings	-	2,560,563	188,785	2,749,348
Debt securities issued	-	1,374,229	360,326	1,734,555

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	-	1,613,558	201	1,613,759
Other assets – derivative financial assets	-	13,484	-	13,484
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

28. Fair Value Measurement (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	-	1,283,607	295	1,283,902
Other assets – derivative financial assets	-	2,610	-	2,610
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

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.

Derivative financial instruments

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

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.

28. Fair Value Measurement (continued)

Fair value hierarchy (continued)

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 2015	At 31 December 2016	Disposal	At 31 December 2017	Purchase	At 31 December 2018
Level 3 financial assets						
Equity investment securities	295	295	(94)	201	194	395

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 11.

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
	2018		2017		2016	
Level 3 financial assets						
Equity investment securities	395	+/- 59	201	+/- 30	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.

28. Fair Value Measurement (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:

	2018	Valuation technique	Significant unobservable inputs	Range (weighted average) *	Other key information	Range (weighted average)	Sensitivity of the input to fair value
Investment property	**155,183**						
Land	15,094	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	75,171	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	64,918						
	20,453	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)	
			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
	33,369	Income approach	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
	11,096	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

**** Price, rate and cost of unobservable inputs in this table are presented in Georgian Lari ("GEL"), unless otherwise indicated.***

28. Fair Value Measurement (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 2018, 31 December 2017 and 31 December 2016:

	31 December 2018		
	Amortised cost	Fair value through OCI	Fair value through profit or loss
Financial assets			
Amounts due from credit institutions	1,305,191	-	-
Loans to customers	9,120,881	-	-
Finance lease receivables	108,439	-	-
Trade and other receivables (in other assets)	20,379	-	-
Equity instruments	-	466	-
Debt instruments	-	1,932,087	-
Interest rate contracts	-	-	12,636
Foreign currency derivative financial instruments	-	-	22,921
Total:	**10,554,890**	**1,932,553**	**35,557**
Financial liabilities			
Amounts owed to customers	8,196,551	-	-
Amounts due to credit institutions and other borrowings	2,749,348	-	-
Debt securities issued	1,711,032	-	-
Trade and other payables (in other liabilities)	19,393	-	-
Interest rate contracts	-	-	6,360
Foreign currency derivative financial instruments	-	-	5,209
Total:	**12,676,324**	**-**	**11,569**

	31 December 2017			31 December 2016		
	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	1,216,343	-	-	940,485	-	-
Loans to customers	7,445,578	-	-	6,379,965	-	-
Finance lease receivables	65,306	-	-	13,096	-	-
Trade and other receivables (in other assets)	23,605	-	-	13,268	-	-
Equity instruments	-	201	-	-	295	-
Debt instruments	-	1,613,558	-	-	1,283,607	-
Interest rate contracts	-	-	8,869	-	-	-
Foreign currency derivative financial instruments	-	-	4,615	-	-	2,610
Total:	**8,750,832**	**1,613,759**	**13,484**	**7,346,814**	**1,283,902**	**2,610**
Financial liabilities						
Amounts owed to customers	7,123,866	-	-	5,773,512	-	-
Amounts due to credit institutions and other borrowings	3,162,209	-	-	3,468,353	-	-
Debt securities issued	749,655	-	-	177,271	-	-
Trade and other payables (in other liabilities)	27,482	-	-	11,609	-	-
Interest rate contracts	-	-	1,456	-	-	-
Foreign currency derivative financial instruments	-	-	2,492	-	-	15,689
Total:	**11,063,212**	**-**	**3,948**	**9,430,745**	**-**	**15,689**

28. Fair Value Measurement (continued)

Fair value of financial instruments that are carried in the financial statements not 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 values of other smaller financials assets and financial liabilities, fair values of which are materially close to their carrying values.

	Carrying value 2018	*Fair value 2018*	*Unrecognised gain (loss) 2018*
Financial assets			
Cash and cash equivalents	1,220,524	1,220,524	-
Amounts due from credit institutions	1,305,191	1,305,191	-
Loans to customers	9,120,881	9,091,370	(29,511)
Finance lease receivables	108,439	108,439	-
Financial liabilities			
Amounts due to customers	8,196,551	8,192,491	4,060
Amounts due to credit institutions and other borrowings	2,749,348	2,749,348	-
Debt securities issued	1,711,032	1,734,555	(23,523)
Total unrecognised change in unrealised fair value			**(48,974)**

	Carrying value 2017	*Fair value 2017*	*Unrecognised gain (loss) 2017*	*Carrying value 2016*	*Fair value 2016*	*Unrecognised gain (loss) 2016*
Financial assets						
Cash and cash equivalents	1,501,654	1,501,654	-	1,487,170	1,487,170	-
Amounts due from credit institutions	1,216,343	1,216,343	-	940,485	940,485	-
Loans to customers	7,445,578	7,559,124	113,546	6,379,965	6,457,145	77,180
Finance lease receivables	65,306	65,306	-	13,096	13,096	-
Financial liabilities						
Amounts due to customers	7,123,866	7,128,147	(4,281)	5,773,512	5,779,581	(6,069)
Amounts due to credit institutions and other borrowings	3,162,209	3,162,209	-	3,468,353	3,468,353	-
Debt securities issued	749,655	763,238	(13,583)	177,271	177,271	-
Total unrecognised change in unrealised fair value			**95,682**			**71,111**

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.

29. Maturity Analysis of Financial Assets and Liabilities

The table below shows an analysis of financial assets and liabilities according to their contractual maturities, except for current accounts as described below. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2018							
	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	1,053,012	167,512	-	-	-	-	-	1,220,524
Amounts due from credit institutions	1,239,365	45,185	976	7,874	-	-	11,791	1,305,191
Investment securities	751,172	941,275	42,499	37,052	108,072	35,115	17,368	1,932,553
Loans to customers	-	1,390,542	627,697	1,372,808	2,449,399	1,323,071	1,957,364	9,120,881
Finance lease receivables	-	17,045	13,678	21,368	42,388	12,249	1,711	108,439
Total	**3,043,549**	**2,561,559**	**684,850**	**1,439,102**	**2,599,859**	**1,370,435**	**1,988,234**	**13,687,588**
Financial liabilities								
Amounts due to customers	1,588,304	1,525,213	732,943	3,603,586	654,967	52,704	38,834	8,196,551
Amounts due to credit institutions and other borrowings	118,693	1,268,990	81,927	178,106	526,983	413,146	161,503	2,749,348
Debt securities issued	-	54,524	162,581	173,755	566,570	753,602	-	1,711,032
Total	**1,706,997**	**2,848,727**	**977,451**	**3,955,447**	**1,748,520**	**1,219,452**	**200,337**	**12,656,931**
Net	**1,336,552**	**(287,168)**	**(292,601)**	**(2,516,345)**	**851,339**	**150,983**	**1,787,897**	**1,030,657**
Accumulated gap	**1,336,552**	**1,049,384**	**756,783**	**(1,759,562)**	**(908,223)**	**(757,240)**	**1,030,657**	

	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	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	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**	

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.

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

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 2018 amounts due to customers amounted to GEL 8,196,551 (2017: GEL 7,123,866, 2016: GEL 5,773,512) and represented 64% (2017: 64%, 2016: 61%) 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 2018 amounts owed to credit institutions amounted to GEL 2,749,348 (2017: GEL 3,162,209, 2016: GEL 3,468,353) and represented 21% (2017: 28%, 2016: 37%) of total liabilities. As at 31 December 2018 debt securities issued amounted to GEL 1,711,032 (2017: GEL 749,655, 2016: GEL 177,271) and represented 13% (2017: 7%, 2016: 2%) of total liabilities.

In the Board'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 2018		
	Less than 1 Year	*More than 1 Year*	*Total*
Cash and cash equivalents	1,220,524	-	1,220,524
Amounts due from credit institutions	1,293,400	11,791	1,305,191
Investment securities	1,771,998	160,555	1,932,553
Loans to customers	3,391,047	5,729,834	9,120,881
Finance lease receivables	52,091	56,348	108,439
Investment properties	-	155,183	155,183
Prepayments	32,971	17,097	50,068
Property and equipment	-	312,017	312,017
Intangible assets	-	76,569	76,569
Investments in associates	-	12,371	12,371
Goodwill	-	33,453	33,453
Current income tax assets	19,234	-	19,234
Deferred income tax assets	-	123	123
Other assets	132,135	2,438	134,573
Assets held for sale	42,408	-	42,408
Total assets	**7,955,808**	**6,567,779**	**14,523,587**
Amounts due to customers	7,450,046	746,505	8,196,551
Amounts due to credit institutions	1,647,716	1,101,632	2,749,348
Debt securities issued	390,860	1,320,172	1,711,032
Current income tax liabilities	679	-	679
Deferred income tax liabilities	308	27,846	28,154
Provisions	4,582	-	4,582
Other liabilities	100,887	1,326	102,213
Total liabilities	**9,595,078**	**3,197,481**	**12,792,559**
Net	**(1,639,270)**	**3,370,298**	**1,731,028**

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

	31 December 2017			*31 December 2016*		
	Less than 1 Year	*More than 1 Year*	*Total*	*Less than 1 Year*	*More than 1 Year*	*Total*
Cash and cash equivalents	1,501,654	-	1,501,654	1,487,170	-	1,487,170
Amounts due from credit institutions	1,205,844	10,499	1,216,343	939,088	1,397	940,485
Investment securities	1,532,185	81,574	1,613,759	1,238,286	45,616	1,283,902
Loans to customers	3,213,309	4,232,269	7,445,578	2,856,502	3,523,463	6,379,965
Finance lease receivables	33,159	32,147	65,306	12,536	560	13,096
Investment properties	-	202,534	202,534	-	152,596	152,596
Prepayments	27,098	28,855	55,953	12,395	57	12,452
Property and equipment	-	305,474	305,474	-	277,394	277,394
Intangible assets	-	50,948	50,948	-	35,814	35,814
Investments in associates	-	11,031	11,031	-	9,626	9,626
Goodwill	-	33,453	33,453	-	33,453	33,453
Current income tax assets	696	-	696	18,505	-	18,505
Deferred income tax assets	-	130	130	-	194	194
Other assets	84,055	33,802	117,857	87,158	1,122	88,280
Total assets	**7,598,000**	**5,022,716**	**12,620,716**	**6,651,640**	**4,081,292**	**10,732,932**
Amounts due to customers	6,513,522	610,344	7,123,866	5,283,974	489,538	5,773,512
Amounts due to credit institutions	1,798,161	1,364,048	3,162,209	2,087,539	1,380,814	3,468,353
Debt securities issued	147,147	602,508	749,655	49,433	127,838	177,271
Current income tax liabilities	8,753	-	8,753	-	-	-
Deferred income tax liabilities	-	11,342	11,342	-	22,169	22,169
Provisions	2,815	-	2,815	3,380	-	3,380
Other liabilities	74,981	5,176	80,157	54,469	634	55,103
Total liabilities	**8,545,379**	**2,593,418**	**11,138,797**	**7,478,795**	**2,020,993**	**9,499,788**
Net	**(947,379)**	**2,429,298**	**1,481,919**	**(827,155)**	**2,060,299**	**1,233,144**

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.

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

	2018			*2017*			*2016*		
	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	**8,981**	**103,141**	**2,358**	**9,171**	**64,772**	**1,735**	**9,334**	**51,205**	**1,242**
Loans issued during the year	2,168	609	2,768	-	148,145	3,259	-	59,086	4,457
Loan repayments during the year	(8,981)	(1,726)	(2,474)	-	(76,070)	(3,236)	-	(72,589)	(4,351)
Other movements	-	(101,617)	(998)	(190)	(33,706)	600	(163)	27,070	387
Loans outstanding at 31 December, gross	**2,168**	**407**	**1,654**	**8,981**	**103,141**	**2,358**	**9,171**	**64,772**	**1,735**
Less: allowance for impairment at 31 December	-	-	(1)	-	(3)	(1)	-	(248)	-
Loans outstanding at 31 December, net	**2,168**	**407**	**1,653**	**8,981**	**103,138**	**2,357**	**9,171**	**64,524**	**1,735**
Interest income on loans	25	2,992	62	-	5,949	147	-	8,230	148
Loan impairment charge	-	-	-	-	-	(1)	-	-	-
Deposits at 1 January	**42,720**	**396,712**	**25,717**	**202,642**	**207,674**	**15,480**	**84,368**	**198,593**	**16,349**
Deposits received during the year	3,299	2,701	9,363	-	238,818	18,938	115,090	65,254	11,328
Deposits repaid during the year	-	(25,826)	(774)	(133,051)	(14,983)	(11,262)	-	(30,828)	(10,934)
Other movements	(7)	(341,150)	(19,834)	(26,871)	(34,797)	2,561	3,184	(25,345)	(1,263)
Deposits at 31 December	**46,012**	**32,437**	**14,472**	**42,720**	**396,712**	**25,717**	**202,642**	**207,674**	**15,480**
Interest expense on deposits	(989)	(2,579)	(410)	(6,546)	(4,316)	(374)	(3,239)	(1,592)	(614)
Other income	-	-	-	-	-	-	-	626	-
Borrowings at 1 January	**386,508**	**-**	**-**	**394,224**	**-**	**-**	**-**	**-**	**-**
Borrowings received during the year	-	-	-	-	-	-	586,250	-	-
Borrowings repaid during the year	(372,110)	-	-	(25,464)	-	-	(230,620)	-	-
Other movements	(14,398)	-	-	17,748	-	-	38,594	-	-
Borrowings at 31 December	**-**	**-**	**-**	**386,508**	**-**	**-**	**394,224**	**-**	**-**
Interest expense on borrowings	(5,620)	-	-	(25,823)	-	-	(12,229)	-	-
Loss from early repayments of borrowings	(10,432)	-	-	-	-	-	(6,979)	-	-
Debt securities at 1 January	**-**	**32,066**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities received during the period	-	-	-	-	32,066	-	-	-	-
Debt securities repaid during the period	-	-	-	-	-	-	-	-	-
Other movements	-	(31,594)	-	-	-	-	-	-	-
Debt securities at 31 December	**-**	**472**	**-**	**-**	**32,066**	**-**	**-**	**-**	**-**
Interest expense on debt securities issued	-	(10,401)	-	-	-	-	-	-	-
Commitments and guarantees issued	-	-	-	-	12,453	-	-	30,957	-

**** Key management personnel include members of BOGG's Board of Directors and key executives of the Group.***
*****Other movements mainly relate to the Demerger.***

Compensation of key management comprised the following:

	2018	2017	2016
Salaries and other benefits	4,504	7,372	4,905
Share-based payments compensation*	56,711	33,635	40,679
Social security costs	69	82	51
Total key management compensation	**61,284**	**41,089**	**45,635**

**** In 2018, share-based compensation included an amount of GEL 28,347 (2017: nil, 2016: GEL 9,820) for key management personnel reflected in the non-recurring items.***

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 2018 was 16 (31 December 2017: 19, 31 December 2016: 16).

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.

During the year ended 31 December 2018, 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 (Basel II/III) 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/III requirements. As at 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

	2017	*2016*
Tier 1 capital	1,241,866	958,979
Less: Deductions from capital	(100,021)	(66,366)
Tier 2 capital	501,689	519,726
Total capital	**1,643,534**	**1,412,339**
Risk-weighted assets	**11,115,315**	**9,790,282**
Total capital ratio	**14.8%**	**14.4%**
Tier 1 capital ratio	**10.3%**	**9.1%**

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 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 2018 and 31 December 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2018	*2017*
Tier 1 capital	1,379,953	1,141,845
Tier 2 capital	502,355	501,689
Total capital	**1,882,308**	**1,643,534**
Risk-weighted assets	**11,338,660**	**9,192,078**
Total capital ratio	**16.6%**	**17.9%**
Tier 1 capital ratio	**12.2%**	**12.4%**
Total Capital ratio Min Requirement	**15.9%**	**12.4%**

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 2018, 31 December 2017 and 31 December 2016, was as follows:

	2018	*2017*	*2016*
Tier 1 capital	1,719,989	1,471,714	1,240,270
Less: Deductions - Goodwill	(33,340)	(33,340)	(33,340)
Tier 2 capital	580,408	560,771	561,713
Less: Deductions from capital	(9)	(9)	(9)
Total capital	**2,267,048**	**1,999,136**	**1,768,634**
Risk-weighted assets	**12,014,414**	**9,750,829**	**7,929,784**
Total capital ratio	18.9%	20.5%	22.3%
Tier 1 capital ratio	14.0%	14.8%	15.2%
Minimum capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**